

P o w e r F i n a n c i a l C o r p o r a t i o n

A N N U A L R E P O R T

1998

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Power Financial Corporation holds substantial interests in the financial services industry in Canada and the United States. Its European affiliate also holds interests in leading companies in the communications, industrial, energy, utility and food sectors.

The year 1998 was one of continued growth for the Power Financial group of companies. Operating earnings of Power Financial and of its North American subsidiaries achieved record levels, while significant improvements were achieved at its European affiliate.

With the acquisition late in 1997 of London Insurance Group, Great-West Lifeco now has a substantially stronger North American operation. London Life's leadership in the individual insurance business complements Great-West Life's leading group insurance business in Canada, and significant expense synergies are being achieved among Great-West Life, London Life and Investors Group. At the same time, both Great-West Life & Annuity in the United States and Investors Group in Canada also produced solid growth. Assets administered by Power Financial group companies in North America now exceed \$122 billion.

The strategic reorganization of the European holdings of the Pargesa group continued in 1998, with the disposition of certain holdings and the strengthening of key affiliates. Late in 1998, and early in 1999, two new major transactions have been initiated: in the oil and gas sector, the group will be the largest shareholder of the new entity Total Fina resulting from the combining of PetroFina and Total, and Im  tal has made an offer, subject to regulatory approvals, worth \$1.9 billion to acquire English China Clays plc to strengthen its presence in specialty minerals.

POWER FINANCIAL CORPORATION
FINANCIAL HIGHLIGHTS

<i>December 31 (in millions of dollars, except per share amounts)</i>	1998	1997
Total revenue	14,767	8,351
Net earnings	678	603
Operating earnings per common share	1.37	1.12
Earnings per common share	1.87	1.70
Dividends per common share	0.50	0.44
Total assets	58,033	54,992
Shareholders' equity	4,172	3,480
Book value per common share	10.45	8.38
Shares outstanding (in millions)	346.6	345.6

PROFILE

Power Financial Corporation has significant interests in the following companies:

Great-West Lifeco Inc. holds a 99.6-per-cent interest in The Great-West Life Assurance Company, which in turn holds a 100-per-cent interest in Great-West Life & Annuity Insurance Company. Great-West also holds a 100-per-cent interest in London Insurance Group Inc., which in turn owns a 98.2-per-cent interest in London Life Insurance Company. Total assets under administration of Lifeco and its operating subsidiaries exceed \$83 billion.

Great-West Life & Annuity Insurance Company operates in the United States of America, where it is a leader in providing employee benefits for small- to mid-sized businesses and in meeting the retirement savings needs of employees in the public/non-profit sector.

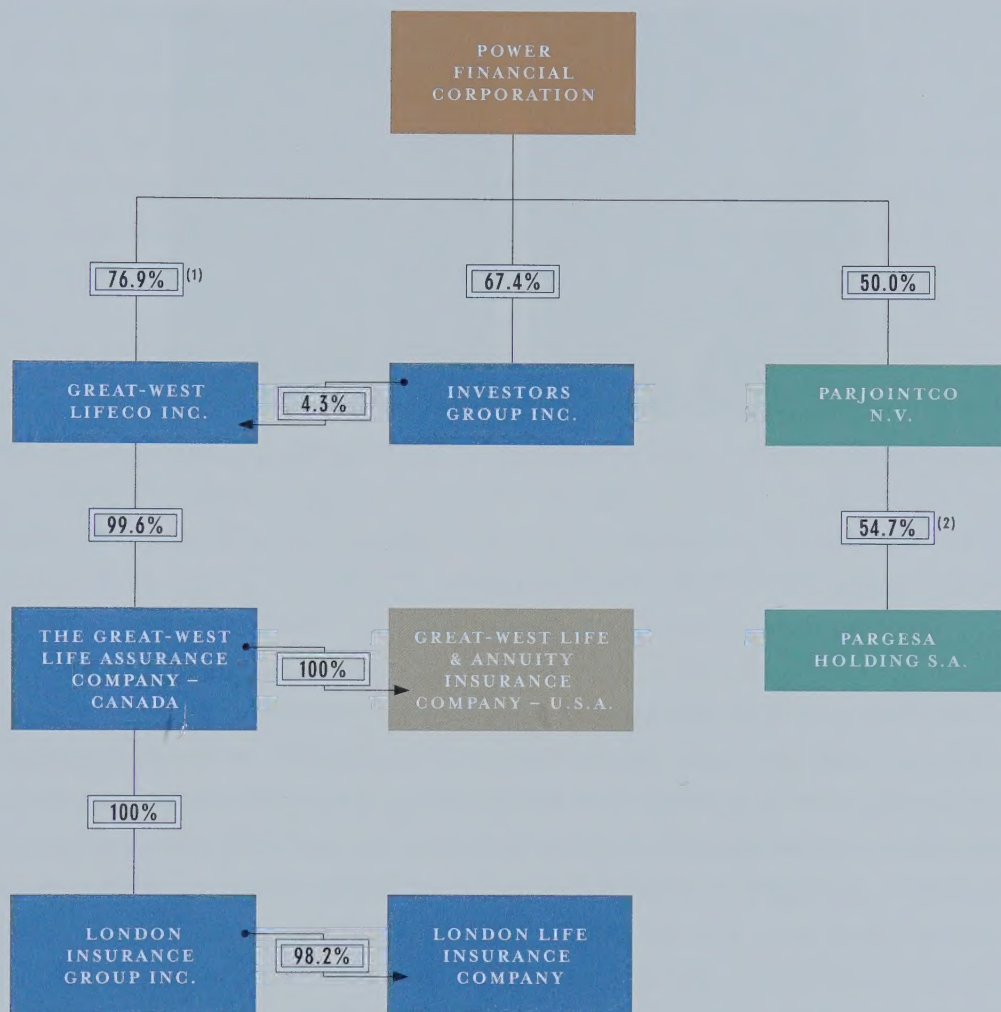
The Great-West Life Assurance Company is the leading Canadian life and health insurance company in market share. It is a leading provider of group insurance and disability insurance products and offers Canadians a broad selection of insurance and retirement savings and income products, including a range of investment funds.

London Life Insurance Company is the leader in the individual life insurance market in Canada and operates internationally through its subsidiaries London Reinsurance Group Inc. and London Life International Corporation.

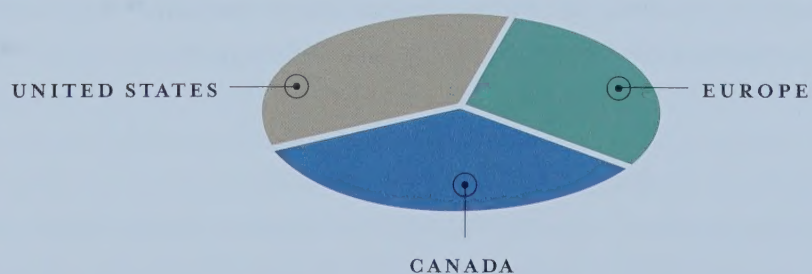
Investors Group Inc. is a leading provider of personal financial planning services and related products in Canada with a dedicated sales force of 3,774 representatives serving more than one million clients. It is Canada's largest sponsor and distributor of mutual funds, as well as a significant provider of a wide range of mortgage and insurance products.

The Pargesa group holds significant positions in a selected number of large companies based in France, Belgium, Luxembourg, and Switzerland. These companies operate in strategic industries including broadcasting, utilities, specialty minerals and energy.

GROUP ORGANIZATION CHART



Geographic Distribution of Investments



Above percentages denote participating equity interest in principal subsidiaries and affiliated company as at December 31, 1998.

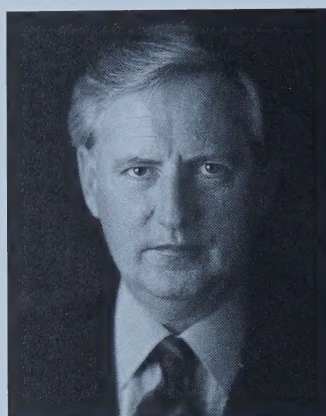
(1) 65% direct and indirect voting interest.

(2) 61.2% voting interest.

DIRECTORS' REPORT TO SHAREHOLDERS



PAUL DESMARAIS, JR.
Chairman of the Board,
Power Financial Corporation



ROBERT GRATTON
President and Chief
Executive Officer,
Power Financial Corporation

The year 1998 was a year of continued growth for Power Financial Corporation. Operating earnings, assets administered and corporate assets all increased substantially. ☞ Power Financial's share of operating earnings from its subsidiaries and affiliate increased to \$514 million, from \$413 million in 1997, reflecting substantial improvements in the earnings of Great-West Lifeco Inc. and Investors Group Inc. Other operating items, which include income from investments, operating expenses, interest expenses and income taxes, brought the total operating results to \$505 million, or \$1.37 per share, from \$404 million, or \$1.12 per share in 1997. ☞ Other income of a non-recurring nature was \$173 million in 1998, or \$0.50 per share, as against \$199 million, or \$0.58 per share in the previous year. Net capital gains realized during the year by the Pargesa group, as a result of the sale of its interests in Belgian insurer Royale Belge and other assets, exceeded those recorded in the previous year. The 1997 figure also included \$100 million related to the acquisition of London Insurance Group Inc. by Great-West. ☞ Power Financial's consolidated net earnings amounted to \$678 million, or \$1.87 per share for the year, as against \$603 million, or \$1.70 per share in the prior year.

Share Subdivision

On June 29, 1998, Power Financial's common shareholders approved a subdivision of its common shares on a two-for-one basis. The subdivision took effect on July 9 and increased the number of common shares then outstanding from 173,171,526 to 346,343,052. The per share figures contained in this report have been adjusted to reflect the effects of this share subdivision. ☞ Share subdivisions also occurred at Great-West Lifeco Inc. and Investors Group Inc., and per share figures have been adjusted accordingly.

Dividends

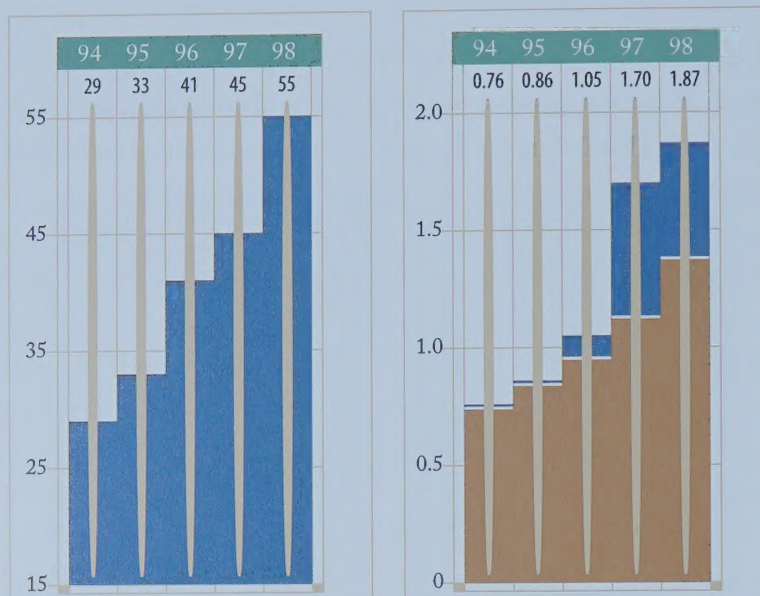
The dividend payable on Power Financial's common shares increased again during the year. At the end of 1998, the quarterly dividend rate was 13.75 cents per share, compared with 11.25 cents at the end of 1997. Total dividends declared on common shares amounted to 50 cents per share in 1998, compared with 44 cents per share in 1997, representing an increase of 13.6 per cent. ☞ Dividends paid by the Corporation's subsidiaries and affiliate also increased during 1998. At Lifeco, the quarterly common share dividend was 11.5 cents per share at the end of 1998, compared with 9.5 cents per share at the end of 1997. At Investors Group, the quarterly dividend increased from 8.5 cents per share to 10.5 cents per share during the year. Pargesa Holding S.A. increased its annual dividend from SF71 to SF72 per bearer share during 1998.

North America

Great-West Lifeco again made the largest contribution to Power Financial's profitability in 1998. Lifeco's net income was \$473 million, compared with \$345 million in 1997, excluding the special integration charge made in the fourth quarter of 1997 in connection with the London Insurance Group acquisition. ☞ Great-West Lifeco's subsidiary, The Great-West Life Assurance Company, has reported that net income for 1998 reflects significant increases for both Canadian and United States operations, compared with 1997. Canadian operations include the results of London Insurance Group, as well as related charges for goodwill amortization and financing costs associated with its acquisition, for a full year in 1998 and from November 14 to December 31 in 1997. ☞ Investors Group reported net income of \$188 million, as against \$148 million in 1997. This is the seventh consecutive year that earnings have grown by at least 15 per cent. Assets under management grew by 11.3 per cent to \$37.9 billion, the result of investment growth and new sales. Net mutual fund sales at \$2.9 billion were the second highest level in the history of the corporation. Investors Group's redemption rates remained among the lowest in the industry.

Europe

In 1998, Pargesa Holding S.A. recorded a slight decrease in its operating income, although its operating affiliates reported improved recurrent results over 1997. Over the last few years, the Pargesa group has undertaken significant strategic initiatives aimed at focusing on a limited number of large companies well positioned in their respective markets, and strengthening its overall financial situation. As a result, several assets have been sold including, for example, all its affiliates in the banking and financial services industries, while economic interests in others have been increased. In addition, strategic alliances have been forged (CLT-UFA in 1997), one new strategic investment has been made (Suez Lyonnaise des Eaux) and cash resources have been significantly increased. As a consequence, substantial capital gains of SF1.3 billion have been recorded in the last three years (SF677 million in 1998, SF556 million in 1997, SF109 million in 1996). Pargesa's 1998 net operating income begins to reflect the accounting impact of the restructuring of its portfolio, now mainly focused on four companies. In the case of one of these (two in 1999), Pargesa now accounts only for



POWER FINANCIAL CORPORATION

Left: Annualized dividend at year-end⁽¹⁾ (in cents per share)

Right: Earnings per share (in dollars)⁽¹⁾ Including \$0.50 of Other income net, in 1998 (\$0.58 in 1997)

(1) Gives effect to the subdivision of the Corporation's common shares effective July 9, 1998. ■ Other income, net

dividends, whereas previously it accounted on an equity basis for the companies which have been sold. ☞ Expressed in Canadian dollars and reflecting the effect of the strengthening of the Swiss franc in 1998, Power Financial's share of net operating earnings of its European affiliate was \$46 million in 1998, compared with \$43 million in 1997. Power Financial recorded additional income of \$174 million in connection with the sale of investments, primarily from the sale of Royale-Vendôme and securities of ING, compared with \$113 million in 1997. Thus, net contribution from Europe to Power Financial's earnings was \$220 million in 1998, compared with \$156 million in 1997.

Group Developments

1998 was again an eventful year with major transactions in Europe and North America being entered into or completed. These developments, we are confident, will further strengthen the group and increase its value over time. ☞ Parfinance S.A., the group's French investment vehicle, sold its interests in Paribas and AXA-UAP (AXA) during the first quarter of 1998 for gross proceeds of \$710 million. Following these transactions, Parfinance's assets consisted primarily of a controlling interest in Imétal S.A., and cash. In June 1998, Parfinance paid a total dividend of \$620 million. Pargesa and its affiliate Groupe Bruxelles Lambert S.A. (GBL), which held 47.5 per cent and 40.7 per cent respectively in Parfinance, received their share of the proceeds. Subsequent to this distribution, Parfinance was merged into Imétal, thus providing Imétal with \$250 million of cash. As a result of this transaction, Pargesa and GBL now hold the group's controlling interest in Imétal directly and jointly. ☞ In May 1998, GBL sold to AXA its 25.1-per-cent interest in Royale-Vendôme, the

intermediate holding company through which GBL and AXA held a controlling interest in Belgian insurer Royale Belge S.A. GBL received cash and AXA securities which have since been sold. Total proceeds from the sale of Royale-Vendôme totalled \$1.2 billion. Pursuant to this transaction, GBL purchased 9.8 per cent of its own shares from AXA for \$600 million. These shares were used to cover the exercise of GBL warrants maturing in 1998, as well as a \$410 million convertible bond issued by GBL in June. ☞ In June 1998, GBL increased its interest in Electrafina S.A. by purchasing an additional 24.4 per cent of the share capital from Vivendi, for cash consideration of \$1.7 billion. As at the end of 1998, GBL held a 76.8-per-cent interest in Electrafina, which is the holding company that holds the group's investments in Suez Lyonnaise des Eaux, PetroFina and CLT-UFA. ☞ In July 1998, Great-West Lifeco's U.S. subsidiary, Great-West Life & Annuity Insurance Company, acquired Anthem Health & Life Insurance Company (AH&L). The AH&L acquisition provided Great-West Life & Annuity with an additional \$1.5 billion of health and life insurance premium and self-funded premium equivalents and approximately 450,000 additional medical members. It represented a 25-per-cent increase in the U.S. company's group life and health business. ☞ In 1998, Investors Group acquired the mutual fund investment management operations of London Life Insurance Company. London Fund Management Ltd. sold its fund management activities to a new subsidiary of Investors Group named MAXXUM Fund Management Inc. The acquisition represents an extension of the strategic relationship formed by Investors Group, London Life and Great-West Life, to enhance the capability of each organization to distribute products and services effectively and to ensure the competitiveness of their sales representatives. ☞ In December 1998, five shareholders in PetroFina, including Electrafina S.A., announced their intention to tender all their PetroFina shares, representing 41 per cent of the share capital, to the French petroleum company Total for new Total shares in order to create the Total Fina group, which would become the third largest integrated petroleum concern in Europe and the fifth largest in the world. On January 14, 1999, Total shareholders approved this transaction as well as the principle of a public exchange offer on the remaining PetroFina shares. The overall transaction is expected to be completed in the second quarter of 1999. Electrafina would become the largest shareholder of Total Fina, with a 6.8-per-cent interest. ☞ During the course of 1998, Groupe Bruxelles Lambert also sold its holding of shares of ING, a Dutch financial services group, which it had received following the sale to ING of Banque Bruxelles Lambert in December 1997. The ING shares were sold for proceeds of \$1.3 billion. Also during the year, Groupe Bruxelles Lambert disposed of several other holdings; namely, Groupe Jean Dupuis, Bernheim Comofi, Transcor, Distripar, Dewaay, Fibelpar, Havas and Banque Artesia for total proceeds of \$910 million. ☞ In January 1999, Pargesa subsidiary Imétal S.A. launched a takeover bid for English China Clays plc (ECC), listed on the London Stock Exchange, valuing the company at \$1.9 billion. The Board of Directors of ECC has recommended the acceptance of the offer to its shareholders. This acquisition, subject to regulatory approvals, would allow Imétal to become a world leader in the white pigment sector, producing and marketing kaolin and calcium carbonate used in the pulp and paper, chemical and ceramics industries.

Corporate Finance

Pursuant to an agreement with its parent company, Power Corporation of Canada, and with regulatory approval, Power Financial purchased for cancellation on January 5, 1998 the 1,280,273 First Preferred Shares 1969 Series of Power Financial held by Power Corporation, at a price of \$23.30 per share. Subsequent to this transaction, on February 2, 1998, Power Financial redeemed the 6,879 First Preferred Shares 1969 Series outstanding held by holders other than Power Corporation at a price of \$25.00 per share. These transactions retired the entire First Preferred Shares 1969 Series.

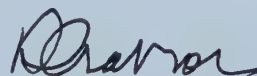
Outlook

In summary, the past year was one of continued superior returns for Power Financial Corporation. Looking forward, your Directors believe that the Power Financial group has established a strong foundation for future growth. ☞ In Canada, the financial services sector remains one of the most dynamic, holding great opportunity for the years ahead. The Power Financial group has built the country's largest life and health insurance operation combining the strengths of Great-West Life and London Life. Investors Group is the country's largest sponsor and distributor of mutual funds. The sales forces of these companies comprise a unique and very effective system for delivering financial products and services to Canadians with advice and with attention to the needs of their clientele. ☞ In the United States, Great-West Life & Annuity continues to adapt effectively to an evolving and competitive market place for its services. The company maintains a tight focus on its target markets and is well positioned to grow as employers seek to provide quality employee benefits efficiently and in a cost-effective manner. ☞ In both countries, Power Financial's operating companies participate in the policy-making process both directly and through industry associations to protect the substantial investment in their franchises from regulatory erosion and to strive for level playing fields. ☞ In Europe, the Pargesa group is now focusing on a limited number of large companies well positioned in their respective markets to participate in European growth. ☞ Your Directors wish to express their appreciation to the officers, employees and representatives of the companies in the Power Financial group for their contribution to the continued progress of the Corporation during this very significant year.

On behalf of the Board,



Paul Desmarais, Jr.
Chairman



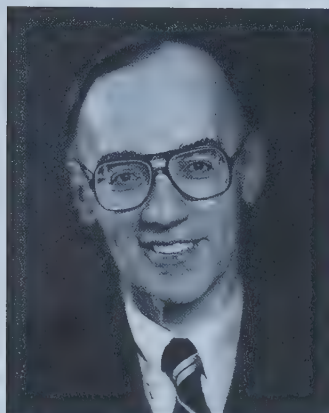
Robert Gratton
President and Chief Executive Officer

April 9, 1999

G R E A T - W E S T L I F E C O

N O R T H A M E R I C A

GREAT-WEST LIFECO INC.



OREST T. DACKOW

President and Chief Executive Officer, Great-West Lifeco Inc.

Great-West Lifeco Inc. (Lifeco) is a financial services holding company with interests in the life insurance, health insurance, retirement savings, specialty reinsurance and general insurance business, primarily in Canada and the United States. ☛ Lifeco holds a 99.6-per-cent voting interest in The Great-West Life Assurance Company (Great-West). ☛ In Canada, Great-West and its subsidiary, London Life Insurance Company (London Life), have the leading market share, as measured by sales, in all major business lines – individual insurance, disability insurance, segregated funds and group insurance. ☛ In the U.S., Great-West's wholly owned subsidiary, Great-West Life & Annuity Insurance Company (GWL&A), ranks among the top private health insurance carriers and is a national leader in the deferred compensation market. ☛ Great-West continues to hold superior ratings from six rating agencies, including the Dominion Bond Rating Service and Duff & Phelps Corporation for claims-paying ability; Standard & Poor's Corporation for insurer financial strength, A.M. Best Company for financial condition and operating performance; the Canadian Bond Rating Service for investment strength; and Moody's Investors Service for insurance financial strength.

Developments in 1998

For several years, Lifeco's subsidiaries have pursued a strategy of managed growth. In 1998, GWL&A acquired Anthem Health & Life Insurance Company in the United States. The acquisition is a good strategic fit, accelerating GWL&A's growth in highly attractive segments of the employer markets, increasing membership in key areas and helping the company offer its employee benefit products to

more organizations. In 1998, GWL&A was one of the few major health insurers to meet financial performance expectations in a market that saw several large carriers experience large losses or exit the market entirely. ¶ In 1998, the first full year following the acquisition of London Insurance Group Inc. (LIG), integration of Great-West's operations with those of London Life saw direct expenses decline by \$75 million, on track with its target expense synergy of \$150 million over the first two years. In addition, Great-West expects to realize significant productivity and revenue gains from marketing and administrative alliances among Great-West, London Life and Investors Group Inc. The acquisition also enhanced Lifeco's geographically balanced earnings base, with 59 per cent of earnings during the year generated by Lifeco's United States operations and the balance from Canadian operations. ¶ Great-West has historically enjoyed a strong capital position, as reflected by the company's Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio. Being well capitalized has allowed the company to move quickly when market opportunities arise. Just over 12 months following the acquisition of LIG, healthy operating earnings combined with in-year capital activity have allowed Great-West to restore its MCCSR ratio to its very strong pre-acquisition levels. At 15.4 per cent, the company's return on common shareholders' equity remains a solid return in the financial services industry. ¶ By all measures, 1998 was a year of strong growth for Lifeco. Earnings for common shareholders grew by 20 per cent to \$1.17 a share, driven by significant increases in Lifeco's Canadian and United States subsidiaries. Premium income grew 61 per cent in 1998 to nearly \$20 billion. Total assets under administration now exceed \$83 billion, an increase of 11 per cent over 1997.

G R E A T - W E S T L I F E & A N N U I T Y
UNITED STATES

GREAT-WEST — UNITED STATES



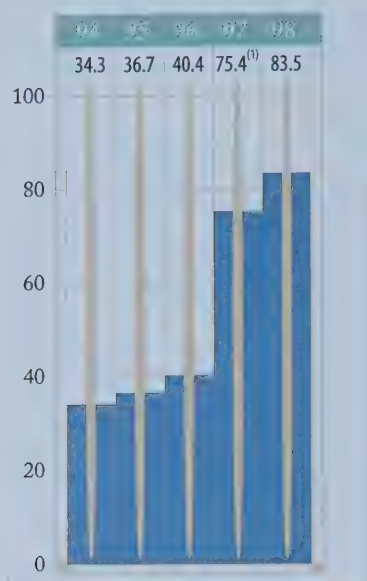
WILLIAM T. McCALLUM

President and Chief Executive Officer, Great-West — United States

Great-West Life & Annuity (GWL&A), a wholly owned subsidiary of Great-West, is domiciled in the state of Colorado. GWL&A's strengths lie in a tight focus on three target markets: the employee benefits market for small- to mid-sized corporate employers; the defined contribution retirement market with special emphasis on Public/Non-Profit (P/NP) entities; and the private sector institutional market for individual financial security products. Overall, net income from United States operations of Great-West in 1998 was \$264 million, up from \$210 million in 1997. Net income attributable to common shareholders was \$256 million in 1998, compared with \$200 million in 1997. GWL&A is organized around three business units: Employee Benefits, Financial Services and Investments.

Employee Benefits

The Employee Benefits Division provides more than 11,300 employers across the United States with an integrated package of products and services, including group life and disability insurance, managed care programs, 401(k) savings plans and flexible spending accounts. The Division distributes its products and services through GWL&A, New England Financial, and Anthem Health & Life Insurance Company (AH&L) field sales staff located in 80 sales offices throughout the U.S. The acquisition of AH&L in 1998 was a good strategic fit for the company, as the majority of its customers were in the same target market of small- to mid-sized employers who prefer to self-fund their benefit plans. The company has started to integrate the AH&L business to a common systems platform with a scheduled completion date of July 1999. Customers are being migrated to the One Health Plan network, providing substantial new growth for the company's managed care subsidiary. During 1998, the Employee Benefits Division experienced significant



GREAT-WEST LIFE CO INC.

Assets under administration
(in billions of dollars)

(1) The 1997 increase includes the effect of the London Insurance Group Inc. acquisition.

growth in 401(k) assets under administration, increased sales and improved customer retention in group life and health, favourable mortality results, and license approval for four Health Maintenance Organization (HMO) subsidiaries, for a total of 14 fully operational HMOs. Overall, the financial results for 1998 have improved with 401(k) revenue premium increasing 21 per cent to \$2.4 billion. Assets under administration in 401(k) plans increased 36 per cent over 1997, to \$10.3 billion as the result of premium growth and strong equity markets in the United States. Equivalent revenue premium income for group life and health increased 43 per cent, a combination of the AH&L acquisition and good sales from GWL&A group representatives. Fee and other income increased 33 per cent to \$661 million, driven by life and health sales and strong equity markets. Net income increased in 1998 due to favourable mortality and increased variable fee income associated with strong 401(k) asset growth. The Employee Benefits Division experienced strong sales growth during 1998, as new group medical customers selected GWL&A products, increasing its membership by 143,000 individual members, excluding the AH&L acquisition. Much of the medical growth can be attributed to the introduction of new HMOs in markets with high sales potential, and the company's ability to offer a choice of managed care products. In addition, the number of 401(k) group customers increased by more than 372, increasing the number of individual 401(k) lives by 11 per cent to 477,000.

Financial Services

The Financial Services Division operates three distinct but related businesses:

- The P/NP group provides retirement savings services to employees in the public and non-profit sectors.
- Financial Administrative Services Corporation (FASCorp), a wholly owned subsidiary, provides recordkeeping and administrative services for more than 1.3 million defined contribution participant accounts.
- The Individual Markets group provides individual insurance and annuity products serving both individual and corporate needs, through a select group of institutional partners.

During 1998, the Financial Services Division experienced significant growth in participants and segregated funds primarily attributable to P/NP business, very good persistency in all lines of business, and strong sales of Bank Owned Life Insurance (BOLI). ☞ The assets of the P/NP business, including segregated funds, increased 13 per cent during 1998 to \$12.1 billion. Much of the growth came from the variable annuity business, which was driven by revenue premium and strong investment returns in the equity markets. ☞ The Division again experienced a very high retention rate in P/NP contract renewals in 1998. Part of this customer loyalty comes from initiatives to provide high-quality service while controlling expenses. ☞ Customer demand for investment diversification continued to be strong during 1998. New contributions to variable business represented 63 per cent of the total 1998 premiums versus 69 per cent in 1997. The company continues to expand the investment products available through its subsidiary mutual fund company, Maxim Series Fund, Inc., and partnership arrangements with external fund managers. This array of funds allows customers to diversify their investments across a wide range of investment products, including fixed income, stock and international equity fund offerings. ☞ Sales of individual fixed and variable non-qualified deferred annuities through Charles Schwab & Co., Inc. totalled \$304 million in premium in 1998, compared with \$331 million in 1997. ☞ Individual life insurance revenue premiums of \$1.2 billion in 1998 were up 29 per cent from 1997. That includes BOLI revenue premium of \$639 million, compared with \$247 million in 1997. This product provides long-term benefits for bank employees. ☞ FASCorp continued to grow in 1998, and now administers records for more than 1,304,000 participants, an increase from 1,000,000 in 1997.

Investments

As at December 31, 1998, approximately 91 per cent of the company's invested assets were cash, bonds, or policy loans. The overall quality of the bond portfolio, the largest single component of the company's invested assets, continues to be high, with virtually 100 per cent of the portfolio rated investment grade. ☞ Approximately 45 per cent of the bond portfolio is composed of structured assets. This asset category includes both asset-backed and mortgage-backed securities. ☞ The U.S. equity portfolio consists primarily of the Denver home office, minimal other real estate, seed money

in some of the company's mutual funds and a small number of private equities. ☞ The 29-percent increase in the S&P 500 Index was among the many reasons that investors in the U.S. continued to increase their participation in mutual funds during 1998. In response to this increased consumer desire, the company continues to increase its offerings in the variable fund arena and to offer a broad selection of mutual and segregated funds. During 1998, such funds administered by the company grew to \$15.4 billion, compared with \$11.2 billion at year-end 1997. Included in the December 31, 1998 balance is \$8.8 billion of assets in Maxim and Orchard funds, with 30 different portfolio offerings.

O u t l o o k

In 1999, GWL&A will continue to enhance managed care programs and services, further HMO development, seek National Committee for Quality Assurance (NCQA) accreditation, refine quality assurance programs and introduce member communications directed at health improvements. ☞ The company also expects to continue its growth of third-party administration business through its subsidiary company, FASCorp. Emphasis will also be placed on developing the institutional insurance and annuity markets. ☞ In addition, increased emphasis will be placed on improving Internet functionality during the upcoming year to improve this service for customers.

G R E A T - W E S T L I F E — C A N A D A

G R E A T - W E S T L I F E A S S U R A N C E / L O N D O N L I F E I N S U R A N C E

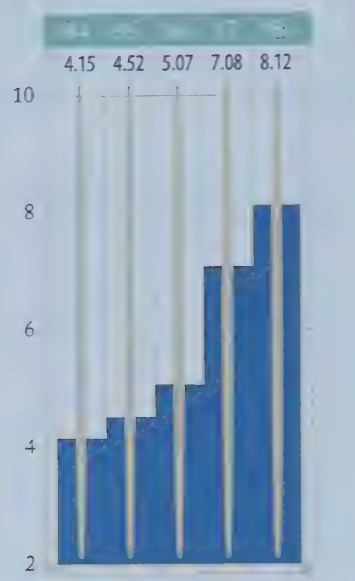
GREAT-WEST — CANADA



RAYMOND L. McFEETORS

President and Chief Executive Officer, Great-West – Canada
and London Life Insurance Company

The strong market position of Great-West in Canada supports its mission to be the leading advice provider of financial security products for Canadians. Together with its subsidiary, London Life, the company offers a broad range of financial security products to individuals and groups through a variety of distribution channels. ☞ Net income for 1998 was \$209 million, compared with \$135 million for 1997 before the special integration charge related to the LIG acquisition in 1997. Net income attributable to common shareholders was \$181 million, up from \$114 million for 1997. ☞ The positive earnings results were due to a combination of reduced operating expenses as a result of significant progress made toward integration of Great-West and London Life operations, strong investment results and increased segregated fund fee income, offset by deterioration in group morbidity. ☞ Integration activities in 1998 included the establishment of a single individual insurance and investment products group under a senior management team based at London Life's head office, providing London Life and Great-West branded products and services to the respective sales forces. The group insurance operations of Great-West and London Life were merged into an integrated organization based at Great-West's head office in Winnipeg, providing Great-West branded products and services to the company's various distribution systems, including London Life's sales force. The scale created by this pooling of resources allows the investment in research, development and technology to continue to provide each sales force with products and services at the forefront of the industry.



GREAT-WEST LIFECO INC.

Book value per share
(in dollars)

Group Operations

Great-West's Group Division provides a wide range of group insurance products to more than 22,000 employers across Canada. The Group Division has a significant presence in all market segments and covers more than 8.0 million Canadians through its products – life and accidental death and dismemberment insurance, short- and long-term disability insurance, drug, dental care and vision care coverages not provided by Medicare, and employee assistance plans. 📌 Great-West's group insurance products are marketed through a number of large distribution channels supported by sales and service personnel located in an extensive field office network. In 1998, the group insurance operations of London Life and Great-West were merged into an integrated sales and service organization, nearly doubling Great-West's sales and service force with the addition of London Life group personnel. As a result of the acquisition, London Life's 2,900 representatives have joined the brokers, independent agents, benefit consultants, Investors Group and Great-West representatives who sell Great-West group insurance products. 📌 Group sales from all distribution channels totalled \$166 million, up 14 per cent from 1997. Sales results in the small- to mid-sized markets grew in 1998, reflecting the distribution system's ability to continue delivering industry leading sales results while at the same time converting more than 8,100 London Life small group clients to Great-West products. New sales opportunities emerged in the large case market, where sales were up 33 per cent over 1997. 📌 Revenue premium, at \$2.7 billion, was up 56 per cent in total, significantly expanding Great-West's leading market share position. The acquisition of the London Life group insurance business was the driving force behind the large growth. The strong persistency of the London Life group business substantially improved the company's market position in the

target market of small- and mid-sized businesses – where revenue premium growth was 91 per cent. ■ The Group Division's expense ratio (expenses over revenue premium) was up in 1998, a reflection of the more expense-intensive London Life business and the shift in business growth towards the small- and mid-sized clients. Once integration is complete, improvement in the expense ratio is projected as expenses are reduced. ■ In 1998, Great-West enhanced its customer service capabilities, introducing new billing and enrollment systems, adding new features to *GroupNet™*, its industry-leading Internet-based administration system, and introducing new software to help clients administer flexible benefit plans.

Individual Insurance & Investment Products

This new division, established in 1998, provides life and disability insurance products for individual customers, as well as accumulation and payout annuity products for both group and individual customers. ■ The combined organization holds the leading market share in Canada for disability and life insurance in new sales and revenue premium, and for segregated funds in terms of sales and assets.

INDIVIDUAL INSURANCE Life insurance products manufactured for London Life are proprietary to the London Life field force, while the life insurance and disability income products manufactured for Great-West are sold by Great-West and Investors Group representatives as well as independent brokers. Great-West became the exclusive provider of individual disability insurance products for London Life in April 1998. ■ During 1998, the Division improved the competitiveness of its term life insurance products by reducing premium rates to reflect improved mortality experience. It also expanded its Tax and Estate Planning group which comprises accountants and lawyers who assist in meeting the needs of representatives and customers in advanced planning situations. Individual life insurance sales, as measured by annualized premium, reached \$110 million in 1998. Revenue premium exceeded \$1.5 billion. ■ Sales of non-cancellable disability insurance increased by 20 per cent during 1998 in terms of new annualized premium in a market that increased by approximately 3 per cent. Sales of Great-West's cancellable product increased 16 per cent over 1997 for a total of \$2.8 million in new annualized premium. ■ Great-West's disability insurance market share, in terms of new sales, increased from 26 per cent to approximately 30 per cent moving it from the second position to the leading position in the Canadian individual disability insurance market.

RETIREMENT AND INVESTMENT SERVICES (R&IS) This division provides long-term savings and investment products for individuals and employer groups. The Division focuses its sales and reinvestment activities on segregated funds, which offer the potential for superior investment returns for customers and satisfactory profit margins for the company. ■ The individual products manufactured for London Life are proprietary to the London Life field force, while the individual products manufactured by Great-West are sold by Great-West representatives as well as independent brokers. For group retirement business, London Life representatives also have a proprietary product for small cases (under \$75,000 in premium) but a common product is marketed in the larger employer market. ■ In 1998, the RRSP season was very strong for the investment fund industry and for R&IS, as a result of increased contributions, low interest rates, and strong investment markets. The company continues to benefit from its *Discovery* asset allocation software which led to below industry lapse

rates during the volatile investment markets of 1998. Revenue premium income for the full year was \$2.8 billion, of which 88 per cent was directed toward segregated funds. ☛ During the year, Great-West enhanced its agent software to provide "client rate of return" and electronic account management function for RRIF products; and *Discovery*, its asset allocation program, to provide increased client education facilities and specific income-oriented portfolio recommendations. London Life added 33 individual segregated funds, and enhanced its *Investment Voyager* software to assist clients with asset allocation. Great-West's 42 individual segregated funds and London Life's 40 funds include both internally and externally managed funds. The expanded fund selection and asset allocation software contributed to dramatic growth in segregated funds.

I n v e s t m e n t

The Investment Division is responsible for managing both Great-West and London Life general funds and segregated funds assets. ☛ During 1998, the overall quality of the company's investment portfolios improved. New investment activity was directed to government and corporate bonds (55 per cent), and to commercial and residential mortgages (45 per cent). ☛ As in the previous year, bonds accounted for the largest percentage of new investments. During 1998, the bond portfolio increased by \$1.5 billion to \$16.6 billion. Federal, provincial and other government securities increased to 46 per cent of the bond portfolio, while corporate bond investments decreased to 54 per cent of the bond portfolio. ☛ The mortgage portfolio is well diversified by location, property type and industrial class, and includes both commercial and residential mortgages. The quality of the mortgage portfolio improved during 1998. The aggregate amount of non-performing mortgage loans, including foreclosed real estate, declined to \$78 million, or 0.3 per cent of portfolio investments, at the end of 1998. This compares to \$101 million a year ago.

O u t l o o k

Great-West enters 1999 in a strong competitive position in the group insurance market. The addition of London Life's complementary client and product mix has strengthened the company's position in all markets, but particularly in the target small group market. With an overall combined market share approaching 19 per cent, the company leads the industry in new sales to small- and mid-sized employers and has the lowest unit cost of any of its major competitors. ☛ For Individual Insurance & Investment Products, the London Life and Investors Group distribution channels offer considerable potential for disability insurance products, and in 1999 there will be an increased focus on further developing these sources of sales. The major focus in 1999 will be to continue implementing a systems strategy which will further reduce costs and improve service to customers. ☛ The company's Retirement & Investment Services Division will review industry developments regarding maturity and death benefits guarantees for segregated funds and define any prudent product changes that should be considered.

I N V E S T O R S G R O U P

CANADA



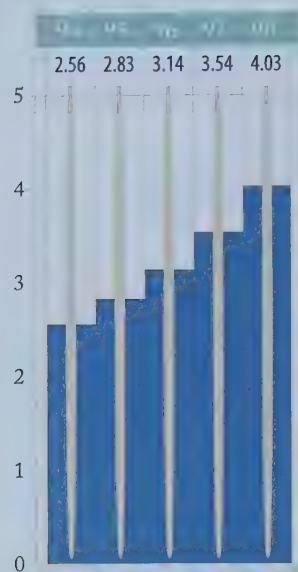
INVESTORS GROUP INC.



H. SANFORD RILEY

President and Chief Executive Officer, Investors Group Inc.

Investors Group Inc. is a leading provider of personal financial planning services and related products in Canada. It is also Canada's largest sponsor and distributor of mutual funds as well as a significant provider of a wide range of mortgage and insurance products. Investors Group began offering mutual funds to its clients in 1950, and today it manages over \$36 billion in assets. These are invested in 62 mutual funds which encompass many diverse financial markets. A broad range of other financial products and services, including life and health insurance products, mortgages, guaranteed investment certificates, annuities and securities brokerage services are also offered as part of the unique financial planning approach that Investors Group takes with its clients. 🍷 The key factor in the historical success of Investors Group is its dedicated sales force. 3,774 men and women in 100 financial planning centres all across Canada deliver Investors services and products to more than 1,000,000 clients. Investors Group's representatives provide financial planning advice to assist individuals to achieve their long-term financial security. They also maintain levels of personalized service that are unmatched in the financial services industry.



INVESTORS GROUP INC.

Book value per share⁽¹⁾
(in dollars)

(1) Gives effect to the subdivision of Investors Group's common shares effective July 13, 1998.

Financial Performance

Investors Group's record setting results for 1998 can be attributed to many of the strategic initiatives undertaken over the past several years, as well as the ability of its sales force to deliver strong sales and industry low redemption rates. The Canadian mutual fund industry, as a whole, continued to experience significant growth in assets under administration which increased by \$43.5 billion to \$326.6 billion, while industry sales declined slightly to \$121.6 billion from \$128.6 billion in 1997. 🏆 Investors Group achieved record earnings for the year as net income increased 27.7 per cent from \$147.5 million to \$188.3 million and was the seventh straight year in which earnings increased by at least 15 per cent. Earnings benefited from an increase in fee income of 17.9 per cent from \$725.9 million in 1997 to \$855.8 million at year-end and an improving expense ratio which declined during the year from 25.2 per cent to 22.7 per cent. Mutual fund net sales were the second highest in the company's history at \$2.9 billion. The corporation's redemption rate (including money market funds) remained steady in 1998 at 10 per cent which compared favourably to a rate of 30 per cent for all other member funds of the Investment Funds Institute of Canada (IFIC). Life insurance sales increased by 30.3 per cent from \$14.4 million to \$18.7 million. The corporation has now placed insurance in force of \$14.5 billion. During 1998, the corporation assumed the servicing of mortgages originated by London Life Insurance Company and now services a portfolio, primarily of residential mortgages, in excess of \$8.1 billion. During 1998, Investors Group's dividend per share increased for the ninth consecutive year, increasing 8 cents to 38 cents.

Enhancing its Competitive Position

The financial services sector remains one of the most dynamic in Canada, holding great opportunity for the years ahead. The industry is continuing to evolve in response to changing demographics, consumer attitudes and new technology and to meet the challenges of deregulation. ☛ In a market place now crowded with many players, Investors Group looks to its traditional strengths to set it apart: its financial planning ethic, its emphasis on long-term client relationships, its highly skilled sales force, its strong balance sheet and its leadership position within the industry. Investors Group's strategy continues to be to grow its business by building lasting client relationships. It will continue focusing its efforts on investments in those areas that build and add value to the relationships that its clients have with its representatives and with Investors Group. ☛ Central to this is the quality and productivity of its team of representatives. In 1998, the Investors Group sales team grew to 3,774 at the end of the year, compared with 3,507 at the end of 1997. ☛ One of Investors Group's key advantages is the quality and experience of its people with 53 per cent of its representatives having four years or more experience in the business. It has made great strides in consolidating and enhancing training so that Investors Group's representatives can keep pace with the increasingly complex task of developing individualized financial programs. Investors Group maintains the quality of its representatives through a rigorous selection process, followed by extensive training in representative schools and ongoing development through the Investors Group Institute, its comprehensive in-house continuing education facility. The corporation's representatives are supported through state-of-the-art technology and an extensive network of mortgage, insurance, securities, tax and advanced financial planning specialists. ☛ The corporation continued to expand its mutual fund product line with the introduction of an additional portfolio fund for the retirement market, 3 new Canadian equity funds, one foreign equity fund and the acquisition of 9 Maxxum funds from London Life, bringing the total offering of mutual funds to 62 funds managed both by its own team of investment specialists and by other leading national and international investment managers.

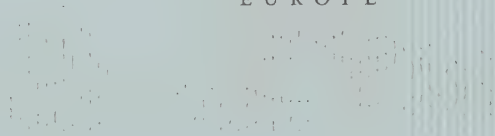
Strategy: Value in a Competitive Environment

The past year was marked by volatility in financial markets. After a prolonged bull market, uncertainty dominated from June onwards. Canadian equity markets corrected by 31.8 per cent from their highest point in April, but by the end of the year, the TSE 300 Composite Index had recovered by 21.6 per cent ending the year with only a slight loss. ☛ Such volatility is not new. Since Investors Group introduced its first mutual fund 48 years ago, there have been 12 occasions on which the Canadian equity markets have declined by 15 per cent or more. In that same period, however, markets have experienced an overall increase of 2,854 per cent. These corrections served to remind investors of the inherent fluctuations common to financial markets, and reinforced the appropriateness

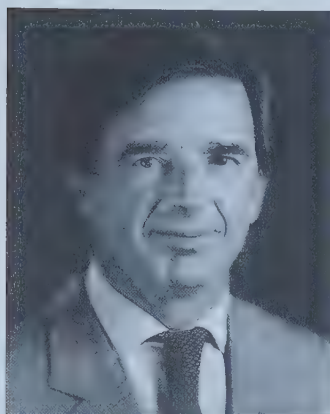
of Investors Group's philosophy that a balanced approach to long-term investing is a necessity. Investors Group takes great pride in the fact that its representatives have been very successful in encouraging their clients to take a long-term view, which success is evidenced by its low redemption rate, which at 10 per cent compares favourably with the rate of 30 per cent for all other IFIC members. ¶ Investors Group believes that, for the long term, health and credibility of the mutual fund industry, it is imperative that all investors have confidence in the regulatory system which governs the conduct of their industry. To that end, the corporation supports the newly created Mutual Fund Dealers Association of Canada which is charged with establishing and regulating appropriate standards for the industry and the protection of the consumer. The corporation believes that the industry must do more to demonstrate its commitment to the interests of consumers and Investors Group continues to push for the establishment of high professional standards which will apply equally to all industry participants. ¶ Strong growth in the financial services sector and the mutual fund industry, in particular, has continued throughout 1998. Some analysts forecast that this will continue well into the next decade. This view is supported by positive trends for the industry such as the shift to long-term investments brought on by lower interest rates, increasing ease of investment, concern over the adequacy of government-sponsored pension plans and changing demographics. It is evident that an aging population is, increasingly, turning its attention to saving and investing. Investors Group will continue to adapt and evolve to meet the changing needs of its business while retaining the core values and traditional strengths that have served it so well. The record results of 1998 are indicative that the progress made by Investors Group has laid the foundation for a very promising future.

T H E P A R G E S A G R O U P

E U R O P E



THE PARGESA GROUP



AIMERY LANGLOIS-MEURINNE

Managing Director, Pargesa Holding S.A., Managing Director, Orior Holding S.A.
and Chairman of the Supervisory Board, Imétal S.A.

Power Financial Europe B.V.

Power Financial Europe B.V. (PFE), which has its headquarters in Rotterdam, the Netherlands, is a wholly owned subsidiary of Power Financial Corporation. Its main investment is a 50-per-cent interest in Parjointco N.V. As at December 31, 1998, PFE had cash holdings in excess of \$60 million.

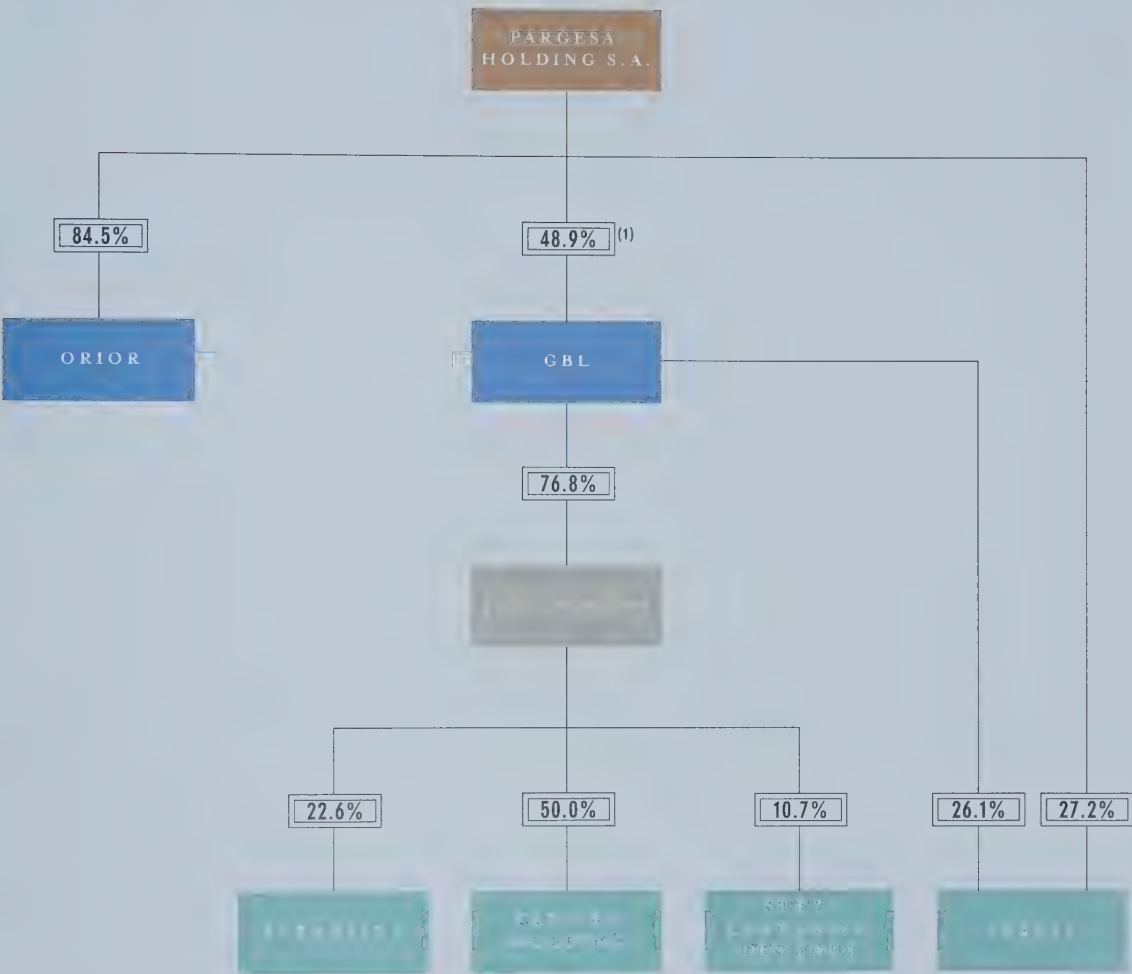
Parjointco N.V.

Power Financial Corporation and the Frère group of Belgium each holds a 50-per-cent interest in Parjointco N.V., a Netherlands-based holding company which is their sole joint European investment vehicle. ¶ Parjointco's principal holding is a 54.7-per-cent equity interest, representing 61.2 per cent of the voting shares, in the share capital of Pargesa Holding S.A. (Pargesa), the Pargesa group's parent company, which is based in Geneva, Switzerland. As at December 31, 1998, Parjointco's shareholders' equity exceeded \$2.3 billion.

The Pargesa Group

The Pargesa group consists of the affiliated holding companies Groupe Bruxelles Lambert S.A. (GBL) of Belgium and Orior Holding S.A. of Switzerland. The group has holdings in major Europe-based corporations which it considers to offer potential for superior long-term returns and growth. ☛ Since 1990, when Power Financial Corporation and the Frère group became controlling shareholders of Pargesa, the group has gradually scaled back its investments in the banking and financial sectors and sold off non-strategic interests in order to focus on selected holdings, described in the following pages. These companies are strategically positioned in their respective markets. ☛ Using the cash proceeds generated from this policy and other financings in recent years, the Pargesa group is now turning its attention to developing these holdings, simplifying and consolidating its own financial structure and seeking new investment opportunities. As at December 31, 1998, cash assets and temporary investments, net of short-term debt, held by the group's holding companies totalled \$3.4 billion. ☛ In keeping with this strategy, the Pargesa group initiated several new important transactions in 1998 and early 1999. ☛ In the first quarter of 1998, Parfinance, then the French holding company of the Pargesa group, sold its interests in Paribas and AXA for pre-tax gross proceeds of \$710 million. These transactions left Parfinance with assets consisting for the most part of cash and the group's stake in Imétal. In June 1998, Parfinance, in which Pargesa and GBL held an aggregate 88-per-cent equity interest, distributed a total dividend of \$620 million before being amalgamated with its subsidiary, Imétal. The group's interests in Imétal, totalling 53.3 per cent of equity, are now held jointly and directly by Pargesa and GBL. ☛ In May 1998, GBL sold to AXA its 25.1-per-cent interest in Royale-Vendôme, a holding company through which GBL and AXA jointly held a majority interest in the insurance company Royale Belge S.A. The transaction was paid for partly in cash and the balance in AXA securities which were sold on the market. The sale of the interest in Royale-Vendôme ultimately generated total cash proceeds of \$1.2 billion. ☛ As part of this transaction, GBL also redeemed 9.8 per cent of its own shares from AXA for \$600 million. A portion of the redeemed shares was used as security for the issuance of a convertible bond in the amount of \$410 million, the balance being delivered on the exercise of GBL warrants issued in 1994 and maturing in 1998. ☛ In June 1998, GBL increased its interest in Electrafina by purchasing the 24.4-per-cent interest held by Vivendi for \$1.7 billion. At the end of 1998, GBL held a 76.8-per-cent interest in Electrafina, which holds the group's interests in Suez Lyonnaise des Eaux, PetroFina and Audiofina/CLT-UFA. ☛ On December 1, 1998, five shareholders of PetroFina, including Electrafina, announced their intention to contribute all of their PetroFina shares, or 41 per cent of PetroFina's share capital, to the French company Total in order to create Total Fina, which would become the third largest oil company in Europe and the fifth largest in the world. These contributions and the principle of an exchange offer for all PetroFina securities were approved at the January 14, 1999 Total shareholders' meeting. This project should be finalized in the second quarter of 1999.

ORGANIZATION CHART



Percentages denote cumulative interests in participating equity held by subsidiaries and affiliates of Pargesa Holding at December 31, 1998. Economic interest in operating companies is shown in the table on page 74. Electrafina holds its interest in CLT-UFA through Audiofina, an intermediate holding company.

(1) 51.0-per-cent voting rights.

Assuming that all of PetroFina's shares are part of the exchange offer, the Pargesa group, with 6.8 per cent of the share capital, would be the principal shareholder of the newly formed company. ¶ In 1998, GBL also sold the ING shares received on the sale of Banque Bruxelles Lambert in December 1997, along with other interests (Groupe Jean Dupuis, Bernheim Comofi, Transcor, Distripar, Dewaay, Fibelpar, Havas and Banque Artesia) for aggregate proceeds of \$2.2 billion. ¶ In January 1999, Imétal initiated a takeover bid for all shares of English China Clays plc (ECC), a company listed on the London Stock Exchange which Imétal valued at \$1.9 billion. The acquisition would make Imétal a world leader in white pigments, including kaolin and calcium carbonate, which are used in the pulp and paper, chemical and ceramics industries. ECC's board of directors recommended its shareholders accept Imétal's offer, which is awaiting approval by regulatory authorities.

P a r g e s a H o l d i n g S . A .

As at December 31, 1998, Pargesa Holding S.A. had shareholders' equity of \$4.4 billion. Pargesa holds an equity interest of 48.9 per cent (51-per-cent voting rights) in GBL, a direct interest in Imétal (27.2 per cent at the end of 1998, with 26.1 per cent held by GBL), and the interest in Orior Holding S.A. (84.5 per cent at the end of 1998).

O r i o r H o l d i n g S . A .

Orior's main assets consist principally of companies which are market leaders in the food industry. As at December 31, 1998, Orior's shareholders' equity topped \$190 million. ¶ Orior's food industry holdings include the Rapelli group, a major Swiss producer of natural ham and salami; Régina and Reider, producers of pâtés and terrines; and Fredag, a company specializing in pre-cooked poultry products. ¶ Stern, a wholly-owned subsidiary of Orior, produces components for the luxury watch industry.

I M É T A L S . A .

Imétal is an industrial group specializing in the processing of minerals for use in industry and in construction; it also processes metals. With a workforce of 9,900 employees, the group posts annual sales of over \$3.1 billion, with a geographical breakdown of 52 per cent in North America, 25 per cent in France, 16 per cent in other European countries and 7 per cent elsewhere in the world. ¶ THE INDUSTRIAL MINERALS DIVISION recorded annual sales of \$1.3 billion and owns mineral reserves and processing facilities located mainly in the United States and France, but also in other European countries, and in Brazil, Venezuela, South Africa and China. It is an international supplier of kaolin and calcium carbonate for the pulp and paper, chemical and ceramics industries; white clay

and ceramic pastes for the tile, bathroom fixtures and china industries; calcinated clay, alumina and high-purity fused silica and andalusite for the refractory industries; high-purity natural and synthetic graphite for the battery, metallurgy, refractory and abrasives industries. ¶ In 1998, the industrial minerals division pursued its external growth policy by acquiring the ceramic paste production facilities of Hutschenreuther in Germany, Valley Refractories (refractory manufacturer) in South Africa, and American Minerals (a company active in the processing and distribution of mineral products, primarily magnesia) in the United States. This last acquisition was part of a larger transaction whereby Imétal also sold its non-controlling interest in American Premier, a refractory manufacturer, to a U.S. company. ¶ In the kaolin sector in Brazil, a country known worldwide for the purity of its deposits, the quarry and plant start-up operations of the RCC project continued through 1998. More recently, in January 1999, Imétal made a takeover bid for English China Clays plc, a company listed on the London Stock Exchange, valuing that company at \$1.9 billion. English China Clays plc has annual sales of approximately \$2.1 billion, primarily in Europe and the United States, in white pigments such as kaolin and calcium carbonate, as well as in clays and ceramic pastes. ¶ THE BUILDING MATERIALS DIVISION, which has annual sales of \$730 million, produces terracotta tiles and natural slates for roofs, as well as bricks and other terracotta products for the construction of walls and panels. These products are used in the new construction and home renovation sectors and are sold in Europe, primarily in France. The division also comprises a business supplying technical ceramics for the terracotta industries, as well as a roofing products distribution company. In 1998, Imétal integrated new roofing-products distributors and sold its stake in the Jircany tile and brick factory in the Czech Republic, as well as decorative ceramics operations in the technical ceramics sector. ¶ In THE METAL PROCESSING DIVISION, Copperweld Corporation, which serves markets in the United States and Canada, had annual sales of \$1.1 billion. Copperweld manufactures precision mechanical and structural tubes for the building, mechanical construction, transportation equipment, public works and other equipment and consumer durables sectors. Copperweld is also the leading U.S. producer of bimetallic wire for use in the growing telecommunications sector, particularly in cable television and telephony, as well as other industrial and electrical sectors.

GROUPE BRUXELLES LAMBERT S.A.

Groupe Bruxelles Lambert S.A. (GBL), which has its headquarters in Brussels, has a direct interest in Imétal in addition to interests in three leading European companies active in the public utilities (Suez Lyonnaise des Eaux), energy (PetroFina) and communications (CLT-UFA) sectors. GBL's shareholders' equity stood at \$6.4 billion as at December 31, 1998.

SUEZ LYONNAISE DES EAUX

Suez Lyonnaise des Eaux is a Franco-Belgian private infrastructure services group which focuses on four basic human needs: energy, water, waste management and communications. The group, which has sales in excess of \$51 billion and 185,000 employees in more than 120 countries, realizes 62 per cent of its sales outside of France. ☞ In the water sector, the internationally top-ranking group provides water distribution and purification services; sales are \$8.5 billion, 37 per cent of which are in the international market. Degrémont, the global leader in its field, has annual sales of \$1.5 billion and provides engineering services in the design and construction of water treatment plants. The group, which is present on every continent, has large-scale operations in the United States with United Water Resources, in Spain with Aguas de Barcelona, in Argentina with Aguas Argentinas and in Great Britain with Northumbrian Water. The group supplies drinking water to more than 72 million people worldwide. ☞ In the energy sector, the group, with sales of \$17.5 billion, has a 51-per-cent interest in the Belgian company Tractebel S.A., the second largest private electric utility in Europe. Tractebel has almost 72,500 employees and is present in more than 100 countries. It has an electric production capacity of 40,000 MW, 60 per cent of which is outside of Belgium; through its 41-per-cent owned affiliate Distrigaz, it also manages gas transportation capacities of some 103 billion cubic meters per year. Elyo, which has 18,200 employees, provides services in the management and maintenance of thermal installations, urban heating and cooling systems and cogeneration systems, mainly in Europe and the United States. The central engine for expansion for all Suez Lyonnaise des Eaux group's energy activities is in Belgium. ☞ In the waste management sector, the group has sales of \$8.3 billion, making it the leader in Europe and third in the world, and a workforce of 72,500 employees. The group's core business in this sector is the collection, sorting, processing, storage and recycling of all types of household and industrial waste. ☞ In the communications sector, the group operates cable networks, mainly in France and Belgium, and holds an interest in the French digital satellite television project TPS and, with CLT-UFA in the M6 conventional television channel in France. ☞ The Suez Lyonnaise des Eaux group also has a number of interests, some of which are in the process of being sold, in the building, infrastructure (highways, bridges, parking lots, airports), industrial services and financial services sectors, including a 22-per-cent interest in the Belgian banking-insurance group Fortis(B).

PETROFINA S.A.

PetroFina is the parent corporation of an international oil and petrochemical group with extensive operations in northern Europe and the southeastern United States. PetroFina, with its workforce of over 14,500 employees, including some 4,500 in Belgium, reported sales in 1998 exceeding \$28 billion. 🏢 PetroFina is an integrated group involved in all areas of the oil and gas sectors: prospecting, production, refining and retail distribution (through the Fina network). Also active in the petrochemical sector, the group is a major international producer of polymers, specifically polypropylene, polyethylene and polystyrene, as well as products for the paint industry. 🏢 UPSTREAM SECTOR. In 1998, oil and gas production reached 82.3 million barrels of oil equivalent, versus 88.7 million in 1997. The decrease in production was primarily due to the 13-day shutdown of the Ekofisk facilities off the Norwegian coast in August while the wells and pipelines were connected to new platforms, and the start-up of Ekofisk II. 🏢 During the year, PetroFina discovered deposits in Thailand and Angola, where the group, with a 30-per-cent interest, was commissioned to operate in Block 19 located in deep waters. In the United States, the group made three commercial gas discoveries. In Alaska, the Badami field, in which PetroFina holds a 30-per-cent interest, began production in August. 🏢 DOWNSTREAM SECTOR. Volumes processed in the group's refineries increased 4 per cent in 1998 to a record high of 695,500 barrels a day. The Fina network's European fuel sales were up 6.4 per cent after the group implemented plans to expand and upgrade the network and broaden and improve service quality. In September, in a bid to confine its retail sales activities to the vicinity of its refineries, PetroFina entered into an agreement with Shell to exchange Fina's operations in Norway for Shell stations in the Netherlands. This agreement should strengthen Fina's commercial impact in Benelux. 🏢 CHEMICAL SECTOR. In 1998, polymer and monomer production increased by 2 per cent and 7 per cent respectively, reaching record highs of 2.21 and 2.03 million tonnes. In May, the boards of directors of PetroFina and BASF approved an agreement to construct the world's largest liquid steam cracker on the site of the Port Arthur refinery in Texas. This equipment, which will produce ethylene and propylene, will consolidate the group's presence in the U.S. industry. Start-up is scheduled for the year 2000. 🏢 PAINT SECTOR. Despite the effects of the Asian crisis on marine and anti-corrosion paint activities, Sigma group's profits grew by 12 per cent. The restructuring of the decorative paint sector boosted productivity and efficiency in the France and Netherlands facilities, which recorded a jump in production. Paint sales to the industry reached record highs, especially in coil coatings and industrial paints. 🏢 After the completion of the merger, scheduled for the second quarter of 1999, between PetroFina and the French company Total, under the above terms and conditions, the new entity would be the fifth largest oil company in the world and the third largest in Europe. PetroFina shareholders would

have a 30-per-cent stake in the new company, called Total Fina. This merger would result in a better geographic distribution of production, paring down the North Sea share from 78 per cent to approximately 33 per cent. The number of refineries would increase from five to nine, with a total refinery capacity of 1,612,000 barrels per day, and the number of service stations should more than slightly double, to 14,000, for sales of approximately 2,200,000 barrels a day. This transaction would also strengthen the specialty chemical and paint sectors.

CLT - UFA S. A.

Luxembourg-based CLT-UFA is the largest radio and television company in Europe with sales in the order of \$4.9 billion, from its interests in 22 general-interest and specialized television channels, and 20 radio stations in 9 countries. The group is also a key player in the acquisition and production of broadcasting rights. ¶ In Germany, the largest market in Europe, the group controls RTL Television, which ranks first in audience share and advertising revenues. It also holds an interest in Première, the pay-TV leader with over 1,600,000 subscribers. Furthermore, CLT-UFA operates, alone or with partners, three other television channels including Super RTL, a family channel operated jointly with Walt Disney Company, in addition to 8 radio stations. ¶ Radio station RTL in France has had the largest audience share for more than 15 years. In recent years, the television channel M6 has had the fastest growing audience share of all national channels. The group also participates in the operations of 6 other television channels and 2 other radio stations. ¶ The group is also at the forefront of the industry in other European countries. In the Netherlands, it has RTL 4, a general-interest family-oriented channel which is the leading private television channel; RTL 5, which specializes in news and weather reports, and Veronica for younger viewers. In Belgium, it has RTL-TVi, the country's leading French-language channel. In Luxembourg, RTL is the only television network broadcasting in the language of the country. In Great Britain, the group is continuing its growth with Channel 5. In addition, CLT-UFA is also present in Hungary with RTL Klub, and in Poland with RTL 7.

POWER FINANCIAL CORPORATION
MANAGEMENT'S DISCUSSION & ANALYSIS / FINANCIAL STATEMENTS

P o w e r F i n a n c i a l C o r p o r a t i o n

C o n t e n t s

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FINANCIAL INFORMATION page 75

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL RESULTS**
EXCEPT AS OTHERWISE INDICATED,
ALL FIGURES ARE EXPRESSED IN CANADIAN DOLLARS.

Power Financial Corporation (Power Financial) holds substantial interests in Canada and the United States. Power Financial holds a controlling interest in Great-West Lifeco (Lifeco) and Investors Group Inc. (Investors Group); Lifeco controls The Great-West Life Assurance Company (Great-West) which in turn holds 100 per cent of London Insurance Group Inc. (LIG, acquired during the fourth quarter of 1997). These subsidiaries, which offer an extensive range of financial products and services to individuals and corporations as well as public and non-profit entities, constitute an important part of the assets and results of the Corporation.

Power Financial also holds, jointly with the Frère group of Belgium, a significant interest in Pargesa Holding S.A. (Pargesa). The Pargesa group has important holdings in a selected number of major European companies.

Management's discussion and analysis of Power Financial's 1998 financial results focuses on the operations of each of the principal entities within the group. While consolidated financial statements are presented separately in this report, management has also prepared Condensed Supplementary Financial Statements of the Corporation with its principal subsidiaries accounted for on the equity basis in order to facilitate the discussion and analysis of each of its activities. A discussion of the financial results, assets, liquidity and financial resources and the outlook for each of the principal subsidiaries and affiliate has been provided to give readers a greater understanding of Power Financial's underlying assets, earnings base and financial resources.

Lifeco, Great-West, LIG and its 98.2-per-cent owned subsidiary London Life Insurance Company (London Life), and Investors Group each publish an annual report with a detailed discussion and analysis of its activities. Pargesa publishes its annual report in June of each year. Copies of the annual reports of Lifeco, Great-West, LIG, London Life, Investors Group and Pargesa are available from the secretary of each of these companies or from the Secretary of Power Financial.

Highlights of Operating Results

In 1998, net earnings of Power Financial were \$678 million, compared with \$603 million in 1997. On a per share basis, earnings per common share were \$1.87* in 1998, compared with \$1.70 in 1997; operating earnings per share increased 22 per cent, from \$1.12 in 1997 to \$1.37 in 1998. An analysis on an equity basis shows:

- a significant increase in the share of the earnings of Lifeco and Great-West. Operating earnings of Pargesa were slightly lower in 1998 compared with 1997, as a consequence of the strategy undertaken a few years ago to focus the portfolio on a limited number of holdings; however, expressed in Canadian dollars, this decrease has been fully offset by the strengthening of the Swiss franc.
- a decrease in Other income (\$0.50 per share in 1998, compared with \$0.58 in 1997).

Consolidated revenues for the year ended December 31, 1998 were \$14,767 million, compared with \$8,351 million in 1997. This increase is mainly due to the consolidation of LIG's revenues for a full year (in 1997, LIG's revenues were consolidated from November 14), as well as higher premium income and fee income. Consolidated expenses were \$13,537 million in 1998, as opposed to \$7,600 million in 1997, due principally to the consolidation of LIG for a full year.

Consolidated assets and assets under administration of the Power Financial group of companies stood at \$122,865 million at the end of 1998 (1997 – \$110,633 million).

Power Financial and its subsidiaries held corporate assets of \$58,033 million at year-end 1998, as against \$54,992 million at the end of 1997; the increase is mainly due to an increase in corporate assets held by the Lifeco group of companies.

Assets under administration increased to \$64,832 million in 1998 from \$55,641 million in 1997. The segregated funds of Great-West and LIG are predominantly used to fund pension plan obligations of policyholders and provide clients with a vehicle for investing in group and individual savings plans. The market value of these segregated funds was \$28,394 million as at December 31, 1998 (1997 – \$22,162 million), \$22,445 million is attributable to Lifeco (1997 – \$17,562 million) and \$5,949 million to LIG (1997 – \$4,600 million). Investors Group's assets under management, at market value, were \$36,064 million in 1998 (1997 – \$32,248 million). They consist of client assets invested in Investors Group's proprietary mutual funds and other partner funds. Lifeco, LIG, and Investors Group earn fee income from the management and administration of these assets.

**The Corporation's common shares were split on a two-for-one basis on July 9, 1998 and per share figures have been adjusted accordingly.*

POWER FINANCIAL CORPORATION

(In this section, the principal subsidiaries are accounted for on an equity basis.)

READERS ARE REFERRED TO THE CONDENSED SUPPLEMENTARY FINANCIAL STATEMENTS OF POWER FINANCIAL ON PAGE 50 OF THE ANNUAL REPORT. THE SUPPLEMENTARY FINANCIAL STATEMENTS IDENTIFY THE SOURCES OF EARNINGS, ASSETS AND LIABILITIES OF THE CORPORATION.

EARNINGS

Share of Operating Earnings⁽¹⁾ of Subsidiaries and Affiliate

<i>For the years ended December 31 (in millions of dollars)</i>	1998	1997	Change
Subsidiaries ⁽²⁾			%
Great-West Lifeco Inc.	336	267	26
Investors Group Inc.	132	103	28
Affiliate			
Parjointco N.V. (Pargesa Holding S.A.)	46	43	7
	514	413	24

(1) Operating earnings represent net earnings exclusive of non-recurring items.

(2) Excludes, in 1997, the impact of the integration costs recorded by Lifeco as a result of the acquisition of LIG, which was included in "Other income".

Both subsidiaries, Lifeco and Investors Group, reported increased earnings from operations in 1998. Pargesa reported a slight decrease in operating earnings, mainly due to the sale of the group's interests in companies that were accounted for under the equity method (mainly Banque Bruxelles Lambert in December 1997 and Royale Belge in May 1998).

Readers are referred to the sections on Lifeco, Investors Group, and Pargesa in this analysis for further discussions of the operating results of these entities.

Corporate Activities The net contribution related to corporate activities is a charge of \$9 million in 1998, as in 1997.

Other Income Other income was \$173 million in 1998, compared with \$199 million in 1997.

In 1998, non-operating earnings of Pargesa were SF677 million (1997 – SF556 million), mainly as a consequence of the sale of Royale-Vendôme (Royale Belge) and ING securities (received in connection with the sale of Banque Bruxelles Lambert in December 1997). The Corporation's share of these gains has been reduced by the portion of goodwill associated with the assets sold.

In 1997, Other income was mainly composed of the Corporation's net share of gains reported within the Pargesa group (\$113 million), and of the net impact of the LIG acquisition (\$100 million).

ASSETS AND LIABILITIES

Cash and temporary investments, composed of high-quality financial instruments (denominated principally in Canadian dollars at year-end), amounted to \$341 million, compared with \$356 million at the end of 1997.

Investments in subsidiaries and affiliate, accounted for under the equity method, aggregated \$4.1 billion at year-end, compared with \$3.3 billion in 1997, and consisted of the Corporation's interests in Lifeco, Investors Group and Parjointco N.V. (Parjointco).

Other investments were \$174 million (1997 – \$177 million) and included the 8.7 million common shares of BCE Inc. with a carrying value of \$164 million held for the potential future conversion by holders of the exchangeable debentures issued in 1989. These debentures have a carrying value of \$167 million.

Other long-term debt represents the \$150 million principal amount of 7.65% 10-year debentures issued on January 5, 1996 to fund the early redemption of the SF120 million bonds which were initially due in March 1997. The \$150 million principal amount was swapped into SF127.5 million at a rate of interest of 4.43 per cent.

LIQUIDITY AND CAPITAL RESOURCES

As mentioned above, Power Financial held \$341 million in cash and temporary investments at year-end 1998. In managing its cash and temporary investments, the Corporation may invest in foreign currencies and thus be exposed to fluctuations in exchange rates. As at December 31, 1998, 96 per cent of cash and temporary investments were denominated in Canadian dollars.

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

Dividends

For the years ended December 31 (per share)	1998	1997
	CURRENT ANNUALIZED DIVIDEND ⁽²⁾	CASH DIVIDEND
Great-West Lifeco Inc. (\$) ⁽¹⁾	0.50	0.44
Investors Group Inc. (\$) ⁽¹⁾	0.46	0.38
Pargesa Holding S.A. – bearer share (SF)	73	72
		71

(1) In 1998, the common shares of Lifeco and Investors Group were split on a two-for-one basis; 1997 dividends reflect the split.

(2) Lifeco and Investors Group based on the quarterly dividend declared in January 1999. Pargesa's dividend to be approved at the June 1999 Annual General Meeting.

Cash requirements for the payment of dividends are met by dividend income from the subsidiaries and affiliate, interest and dividends on cash and temporary investments, and, when required, the Corporation's cash position. The annual dividends declared on the common shares of Power Financial increased from \$0.44 in 1997 to \$0.50 in 1998. The holders of common shares benefited from increased dividends from subsidiaries and affiliate.

The Corporation's credit standing in the financial markets is as follows:

Independent Ratings of Power Financial

As at December 31, 1998	Rating Agency
	DOMINION BOND RATING SERVICE
Senior debentures	AA (low)
Preferred shares – Cumulative	Pfd-1 (low)
– Non-cumulative	Pfd-1 (low) n
	CANADIAN BOND RATING SERVICE
	A+
	P-1
	P-2

Shareholders' equity at the end of 1998 was \$4,172 million, up from \$3,480 million as at December 31, 1997. This increase is mainly due to:

- retained earnings (+\$475 million),
- foreign currency translation adjustments (+\$245 million). These adjustments relate to the Corporation's investment in Pargesa, partially hedged by the swapped \$150 million debt, and to its indirect investment in Great-West's U.S. operations; both the Swiss franc and the U.S. dollar strengthened against the Canadian dollar in 1998,
- the decrease in the carrying value of preferred shares issued by the Corporation which was \$550 million at year-end 1998, against \$582 million at year-end 1997. Early in 1998, all of the First Preferred Shares 1969 Series, which had a book value of \$32 million were redeemed and cancelled.

Book value per common share was \$10.45 at the end of 1998, compared with \$8.38 one year earlier. In 1998, the Corporation issued 988,946 common shares pursuant to the terms of the Employees Stock Option Plan, resulting in an increase in stated capital of \$4 million (2,333,200 shares, on a post-split basis, were issued in 1997, for an increase in stated capital of \$11 million).

In summary, the Corporation's financial position remains strong.

YEAR 2000

The Corporation is reviewing the risks relating to the Corporation's use of computer hardware and software systems as a result of the Year 2000 issue. As a result of this review, which takes into account the fact that the Corporation is principally a holding company, management does not at this time anticipate that the Corporation will be materially adversely affected by such risks. Lifeco and Investors Group, which are the principal operating subsidiaries of Power Financial Corporation, are dependent on information systems and computer technology. These companies have developed Year 2000 plans for their computer hardware and software systems. Managements of the companies report that internal implementation of these plans is substantially complete but that in certain cases work continues involving remediation and further testing. These companies report that they are also assessing the Year 2000 readiness of vendors/suppliers and business partners based on information gathered from them, and that contingency plans, based on the potential impact of third party problems, are being developed. For further information readers are referred to the annual reports of Lifeco and Investors.

Management of the Corporation's principal European operating affiliates are conducting similar programs. Because of the economic interest the Corporation has in these companies, the Year 2000 issue as related to them is not expected to have a material impact on the Corporation. While it is not possible to have certainty that all aspects of the Year 2000 issue will not materially affect the Corporation, the costs of the foregoing plans and programs incurred and anticipated have not been and are not expected to be material to the Corporation.

POWER FINANCIAL CORPORATION
CONDENSED SUPPLEMENTARY FINANCIAL STATEMENTS

(In this section of the analysis, the principal subsidiaries are accounted for on the equity basis.)

December 31 (in millions of dollars)

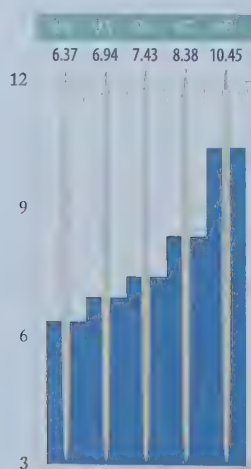
Condensed Statements of Earnings

	1998	1997
Share of earnings of subsidiaries and affiliate	514	413
Corporate activities	(9)	(9)
Earnings before other income	505	404
Other income, net	173	199
Net earnings	678	603
Earnings per share (in dollars)	1.87	1.70

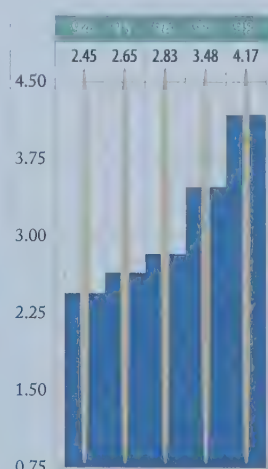
Condensed Balance Sheets

Cash and temporary investments	341	356
Investments		
Subsidiaries and affiliate at equity	4,055	3,328
Other	174	177
Other assets	45	57
Total assets	4,615	3,918
Accrued liabilities and other	108	85
Exchangeable debentures	167	167
Other long-term debt	150	150
Deferred income taxes	18	36
Shareholders' equity		
Preferred shares	550	582
Common shareholders' equity	3,622	2,898
	4,172	3,480
Total liabilities and shareholders' equity	4,615	3,918

POWER FINANCIAL CORPORATION



Book value per share⁽¹⁾
(in dollars)



Shareholders' equity
(in billions of dollars)

⁽¹⁾ Gives effect to the subdivision of the Corporation's common shares effective July 9, 1998.

GREAT-WEST LIFECO INC.

READERS ARE REFERRED TO THE CONDENSED SUPPLEMENTARY FINANCIAL STATEMENTS OF LIFECO ON PAGE 62 OF THE ANNUAL REPORT.

Through its direct interest of 76.9 per cent and Investors Group's interest of 4.3 per cent, Power Financial holds an economic interest of 79.8 per cent in Lifeco. Power Financial holds, directly and indirectly, 65 per cent of the voting rights attached to all outstanding Lifeco voting shares.

Lifeco holds a 99.6-per-cent interest in The Great-West Life Assurance Company (Great-West), which in turn holds a 100-per-cent interest in London Insurance Group Inc. (LIG) and Great-West Life & Annuity Insurance Company (GWL&A). Through Great-West and LIG in Canada and GWL&A in the United States, a wide range of life insurance, health insurance, and retirement and investment products are offered to individuals, businesses and other private and public organizations. As well, through LIG in Canada, Great-West offers reinsurance and specialty general insurance products in specific niche markets.

Summarized Financial Information

At December 31 (in millions of dollars)	1998			1997			CHANGE %
	CANADA	US	TOTAL	CANADA*	US	TOTAL	
Premium income	6,408	2,829	9,237	2,568	2,019	4,587	101
Self-funded premium equivalents	983	3,866	4,849	686	2,814	3,500	39
Segregated fund deposits	2,421	3,276	5,697	1,219	2,959	4,178	36
Total	9,812	9,971	19,783	4,473	7,792	12,265	61
Fee and other income	237	766	1,003	122	581	703	43
Net income before provision for integration costs							
Total	209	264	473	135	210	345	37
Common shareholders	181	256	437	114	200	314	39
Net income after provision for integration costs							
Total	209	264	473	40	210	250	89
Common shareholders	181	256	437	19	200	219	100
Total assets	32,478	22,247	54,725	31,381	20,663	52,044	5
Segregated funds assets	12,959	15,435	28,394	10,963	11,199	22,162	28
Other assets under administration	374	—	374	1,231	—	1,231	(70)
Total assets under administration	45,811	37,682	83,493	43,575	31,862	75,437	11
Common shareholders' equity			3,029			2,643	
Return on equity excluding the provision for integration costs			15.4%			17.4%	
Return on common shareholders' equity			15.4%			12.5%	
<i>Per common share (in dollars)</i>							
Net income before provision for integration costs			1.17			0.97	20
Net income			1.17			0.68	73
Dividends paid			0.44			0.37	19
Book value			8.12			7.08	15

*Comparative figures for 1997 operating results include the portion of results from London Insurance Group for the period November 14 to December 31, 1997.

HIGHLIGHTS OF OPERATING RESULTS

Lifeco's net income for 1998 was \$473 million, which compares with \$345 million for 1997, excluding the special integration charge made in the fourth quarter of 1997. After deducting preferred share dividends, net income attributable to common shareholders was \$437 million and earnings per common share increased 20 per cent to \$1.17. The return on shareholders' equity was 15.4 per cent for the 12 months ended December 31, 1998.

Net income for 1998 reflects significant increases for both Canadian and United States operations, compared with 1997. Canadian operations include the results of LIG, as well as related charges for goodwill amortization and financing costs associated with the acquisition for a full year in 1998 and from November 14 to December 31 in 1997.

Total premium income, including self-funded premium equivalents and segregated fund deposits, was \$19.8 billion for 1998, 61 per cent higher than in 1997. Total premium income for 1998 includes \$6.7 billion of premium equivalents of LIG (\$1.4 billion in 1997).

Fee and other income (which represents primarily management fees for segregated funds and administration fees for ASO contracts) of \$1.0 billion was up 43 per cent, compared to 1997. This reflects the growth in segregated funds assets in both countries and ASO contracts in the United States.

Common shareholders' equity increased to \$3.0 billion at December 31, 1998, from \$2.6 billion at year-end 1997. During 1998, the quarterly dividend paid on common shares was increased to \$0.105 per share for the March and June dividends, and to \$0.115 for the September and December dividends, for a total dividend of \$0.44 for the year. This represents a dividend payout ratio of 37.6 per cent of 1998 earnings (1997 – 38.1 per cent, excluding the special charge), and a 1998 dividend yield (dividends as a percentage of average high and low market price) of 2.0 per cent (1997 – 2.5 per cent). Book value per common share was \$8.12 at December 31, 1998, compared with \$7.08 at December 31, 1997.

FINANCIAL POSITION

Total assets and assets under administration grew to \$83.5 billion at year-end 1998, an increase of \$8.1 billion from 1997. Assets under administration include segregated funds of \$28.4 billion at December 31, 1998, compared with \$22.2 billion at the end of 1997. The change in other assets under administration reflects the sale of the mutual fund investment management operations of LIG to Investors Group, a related company.

Obligations to policyholders made up 91 per cent of total liabilities at the end of 1998 (89 per cent at year-end 1997). The valuation of policy liabilities is certified by the Appointed Actuary of Great-West as being in accordance with accepted actuarial practices.

Total capital and surplus, including non-controlling and other interests, of \$5.6 billion at December 31, 1998, was 11.5 per cent of total liabilities, compared with \$5.2 billion or 11.0 per cent in 1997. It is Lifeco's intention to maintain surplus ratios in its operating subsidiaries at levels sufficient to provide assurance of policyholder security and to maintain its superior credit ratings.

The Office of The Superintendent of Financial Institutions has specified a measurement basis for life insurance companies operating in Canada. This measurement basis is referred to as the Minimum Continuing Capital and Surplus Requirements (MCCSR) and Great-West's ratio is 196 per cent (185 per cent at the end of 1997).

ASSET QUALITY

At December 31, 1998, exposure to mortgage loans and real estate was 22 per cent of invested assets, compared with 26 per cent at the end of 1997.

Lifeco's exposure to non-investment grade bonds was 0.6 per cent of the portfolio at the end of 1998, compared with 1.3 per cent at December 31, 1997.

Non-performing investments, including bonds in default, mortgages in the process of foreclosure or in arrears 90 days or more, and real estate acquired by foreclosure, totalled \$107 million or 0.2 per cent of invested assets at December 31, 1998, compared with \$163 million or 0.3 per cent a year earlier. The Corporation's allowance for credit losses at December 31, 1998 was \$203 million, compared with \$183 million at year-end 1997. Normal provisions for credit losses charged to operations were \$17 million in 1998, down from the 1997 level of \$26 million.

Ratings of Major Subsidiaries of Lifeco

RATING AGENCY	MEASUREMENT	RATINGS		
		GREAT- WEST	LONDON LIFE	GW&A
A.M. Best Company	Financial Condition and Operating Performance	A++*	A++*	A++*
Canadian Bond Rating Service	Investment Strength	A++*	A++*	NR
Dominion Bond Rating Service	Claims Paying Ability	IC-1*	IC-1*	NR
Duff & Phelps Corporation	Claims Paying Ability	AAA*	AAA*	AAA*
Moody's Investors Service	Insurance Financial Strength	Aa2	Aa2	Aa2
Standard & Poor's Corporation	Insurer Financial Strength	AA+	AA+	AA+

*highest rating available; NR – not rated

CANADIAN OPERATIONS

The discussion of operating results is followed by a report on operations of the Canadian segment of Great-West Lifeco Inc., presented in terms of the major Canadian business units of The Great-West Life Assurance Company and London Insurance Group Inc.:

- **Group Insurance** — life, health and disability insurance products for group clients.
- **Individual Insurance & Investment Products** — life and disability insurance products for individual clients, as well as accumulation and payout annuity products for both group and individual clients.
- **Reinsurance & Specialty General Insurance** — life, property and casualty, accident and health, annuity coinsurance and specialty general insurance in specific niche business markets.
- **Investment** — management of assets – general funds, segregated funds and other managed funds.

1998 Canadian Operating Results The Canadian segment of Great-West acquired 100 per cent of the issued and outstanding shares of LiG in the fourth quarter of 1997. The Company's 1997 consolidated operations include the period from November 14 to December 31 of LiG's operating results.

Operations Summary – Canada

(in millions of dollars)

	1998	1997	1998	1997
	PREMIUM INCOME, SELF-FUNDED PREMIUM EQUIVALENTS AND SEGREGATED FUND DEPOSITS		SALES (NEW ANNUALIZED PREMIUMS) ⁽¹⁾	
Group Insurance				
Small/mid-sized	894	467	94	91
Large	1,835	1,278	72	54
Individual Operations				
Life Insurance	1,506	418	110	31
Disability Income	93	87	18	15
Retirement and Investment Services	2,759	1,311	2,980	1,439
Reinsurance and Specialty General Insurance	2,725	912	N/A	N/A
	9,812	4,473	3,274	1,630
Fee and other income	237	122		
Operating expenses	717	297		
Net income before provision for integration costs				
Total	209	135		
Common shareholders	181	114		
Net income after provision for integration costs				
Total	209	40		
Common shareholders	181	19		
Total assets	32,478	31,381		
Segregated funds assets	12,959	10,963		
Other assets under administration	374	1,231		
Total assets under administration	45,811	43,575		

(1) New Annualized Premiums is a measure of new sales, equal to the full first-year premiums on all sales made during the year.

Net income from Canadian operations for 1998 was \$209 million, compared with \$135 million for 1997 before the special integration charge. Net income attributable to common shareholders was \$181 million, up from \$114 million for 1997.

The positive earnings results were due to a combination of reduced operating expenses as a result of significant progress made toward integration of Great-West and London Life operations, strong investment results and increased segregated fund fee income, offset by deterioration in group morbidity.

Total assets under administration in Canada reflect an 18-per-cent growth in segregated funds assets in 1998, mainly due to strong sales.

Premium income reflects the continuing shift away from guaranteed products to segregated funds.

Group Insurance The Group Division provides a wide range of group insurance products to more than 22,000 employers across Canada. The Group Division has significant presence in all market segments – by region, case size and product. The company covers more than eight million Canadians through its group products – life and accidental death and dismemberment insurance; short and long-term disability insurance; drug, dental care and vision care coverages not provided by Medicare; and employee assistance plans.

During 1998, the Group Division experienced:

- continued growth in sales during a period in which a major focus on integration prevailed throughout the entire sales organization,
- dramatic growth in revenue premium, particularly in the target markets,
- strong business persistency, and
- deterioration in mortality and morbidity results.

Individual Insurance and Investment Products This Division provides life and disability insurance products and services designed to meet the evolving needs of today's consumer, and long-term savings and investment products for individuals and employer groups.

INDIVIDUAL INSURANCE During 1998, the Individual Division again performed well against its financial objectives as follows:

- growth in life insurance and disability new annualized premium,
- growth in life insurance and disability revenue premium,
- improved unit costs,
- mortality and morbidity results at or below pricing levels, and
- customer retention at expected levels for all product lines.

The Division's individual disability (DI) business in particular had very good sales results, a 20-per-cent increase in a market that grew by 5 per cent. The addition of London Life as a distribution channel combined with the continued success of Investors Group in distributing DI products were the main reasons for the growth.

RETIREMENT AND INVESTMENT SERVICES The Division focuses its sales and reinvestment activities on segregated funds, which offer the potential for superior investment returns for the customers and satisfactory profit margins.

During 1998, R&IS experienced:

- growth in individual savings plan segregated funds assets in excess of the 15-per-cent growth rate of the Canadian mutual funds industry,
- growth in combined individual and group savings plan segregated funds assets of 18 per cent, and
- a continued shift from guaranteed interest options to segregated funds for new and renewing investors.

To maintain its longer term growth and profitability objectives, R&IS must continue to increase segregated funds assets.

To this end, several product and service enhancements were introduced in 1998:

- Great-West enhanced its agent software to provide "client rate of return" and electronic account management functions for RRIF products; and enhanced *Discovery*, its asset allocation software, to provide increased client education facilities and specific income oriented portfolio recommendations,
- London Life expanded the segregated funds offered to individuals from 7 to 40 funds, and enhanced *Investment Voyager*, its asset allocation software, to assist clients with asset allocation.

Great-West now offers 42 individual segregated funds, including funds managed by GWLIM, Putnam Advisory Company Inc., Mackenzie Financial Corporation, AGF Management Limited, Sceptre Investment Counsel Limited, and Beutel, Goodman & Company Ltd.

London Life now offers 40 individual segregated funds, including funds managed by LLIM, GWLIM, Fleming Canada Partners, MAXXUM Fund Management, Mackenzie Financial Corporation, AGF Management Limited, Sceptre Investment Counsel Limited, and Beutel, Goodman & Company Ltd.

Investment The Investment Division is responsible for managing both Great-West and London Life general funds and segregated funds assets. Within the company's conservative investment policies, the Investment Division manages portfolios of assets to produce a steady source of income to support the cash flow and liquidity requirements of the company's insurance and investment products.

GENERAL FUNDS The company invests the majority of its general funds in medium-term and long-term fixed-income securities, primarily bonds and mortgages, which reflect the nature of the liabilities being matched.

During 1998, the overall quality of the company's investment portfolios improved. New investment activity was directed to government and corporate bonds (55 per cent), and to commercial and residential mortgages (45 per cent).

As in the previous year, bonds accounted for the largest percentage of new investments. During 1998, the bond portfolio increased by \$1.5 billion to \$16.6 billion. Federal, provincial and other government securities increased to 46 per cent of the bond portfolio, while corporate bond investments decreased to 54 per cent of the bond portfolio.

The company continued to follow strict industry and issuer diversification policies in the bond portfolio to minimize exposure to individual credits. These prudent investment policies, combined with conservative underwriting and lending practices, contributed to the very high credit quality of the portfolio. At year-end 1998, 89 per cent of the consolidated bond portfolio was rated A or higher, and 99 per cent was rated investment grade.

SEGREGATED FUNDS During 1998, segregated fund assets under management, grew by \$2.0 billion or 18 per cent, to \$13.0 billion at year-end. This includes 81 funds totalling \$2.2 billion managed by 19 external managers.

Segregated Funds Assets

<i>December 31 (in millions of dollars)</i>	1998	1997	1996	1995	1994
Stocks	6,914	6,180	2,788	1,943	1,520
Bonds	3,837	3,094	1,374	1,134	1,121
Mortgages	960	872	440	510	507
Real estate	868	415	226	210	236
Other	380	402	71	157	148
Total	12,959	10,963	4,899	3,954	3,532
Internally managed	10,754	9,397	4,359	3,834	3,486
Externally managed	2,205	1,566	540	120	46
Year-over-year growth	18%	124%	24%	12%	

Reinsurance and Specialty General Insurance This business segment includes the operations of three major subsidiaries which participate in life, property and casualty, accident and health, annuity coinsurance and specialty general insurance in specific niche markets. Making up this segment are the following three major subsidiaries of LIG:

LONDON REINSURANCE GROUP (LRG) Reinsurance contracts are legal agreements in which an insurer transfers certain risks on its insurance policies to another insurer, called a reinsurer.

The operations of LRG allow it to selectively participate in attractive, mature global markets and diversify London Life's retail and other insurance operations. LRG reinsures life, property and casualty, accident and health and annuity business through operating companies in the United States, Barbados and Ireland.

LONDON LIFE INTERNATIONAL London Life International’s business strategy is to develop joint venture partnerships with strong domestic partners that provide competitive advantages and share similar values, goals and expectations. London Life International commenced its retail insurance operations in Asia in 1993, with the establishment of Shin Fu in Taiwan, a joint venture in which London Life International owns nearly 39 per cent.

LONDON GUARANTEE London Guarantee is committed to the underwriting of specialty products in the property and casualty insurance market place. The company has three product line categories: (1) Surety, which includes surety bonds for the construction and real estate industries, miscellaneous bonds for commercial entities and completion bonds for the motion picture industry; (2) Corporate Risk, incorporating directors and officers liability, fidelity, fiduciary and professional liability insurance for public, private and not-for-profit entities; and, (3) Special Risk, comprising alternative risk management solutions for commercial enterprises. These products are distributed through a network of over 700 independent insurance brokers located throughout Canada.

UNITED STATES OPERATIONS

The discussion of operating results is followed by a report on operations of the United States segment of Lifeco, presented in terms of the major business units of GWL&A:

- **Employee Benefits** – life, health, disability insurance and 401(k) products for group clients.
- **Financial Services** – accumulation and payout annuity products for both group and individual clients, as well as life insurance products for individual clients.
- **Investment** – management of assets – general funds, segregated funds and other managed funds.

Operations Summary – United States

(in millions of dollars)	1998	1997	Change	1998	1997	Change
	PREMIUM INCOME, SELF-FUNDED PREMIUM EQUIVALENTS AND SEGREGATED FUND DEPOSITS			SALES (NEW ANNUALIZED PREMIUMS) ⁽¹⁾		
			%			%
Employee Benefits						
Group life & health	5,010	3,496	43	1,001	574	74
401(k)	2,380	1,969	21	874	1,001	(13)
Financial Services						
Savings	1,338	1,360	(2)	724	853	(15)
Insurance	1,243	967	29	624	329	90
	9,971	7,792	28	3,223	2,757	17
Fee and other income	766	581	32			
Operating expenses	729	565	29			
Net income						
Total	264	210	26			
Common shareholders	256	200	28			
Total funds assets	22,247	20,663	8			
Segregated funds assets	15,435	11,199	38			
Total assets under administration	37,682	31,862	18			

(1) New Annualized Premiums is a measure of new sales, equal to the full first-year premiums on all sales made during the year.

Net income from United States operations of Lifeco in 1998 was \$264 million, up from \$210 million in 1997. Net income attributable to common shareholders was \$256 million in 1998, compared with \$200 million in 1997.

The increase in net income attributable to common shareholders reflects improvements in both business segments. The Financial Services' increase is associated with improved investment income in the asset intensive lines and increased fee income. Employee Benefits earnings were positively affected by growth in variable fee revenue, reductions in unit costs in 401(k) and favourable mortality in group life insurance.

General funds and segregated funds assets in the United States increased 8 per cent and 38 per cent, respectively, in 1998. The growth in segregated funds assets is a combination of the impact of strong equity markets and an increase in fund deposits in 1998.

Acquisition of Anthem In July of 1998, the company acquired Anthem Health & Life Insurance Company (AH&L), a subsidiary of Anthem Inc. (the Blue Cross & Blue Shield licensee for Indiana, Kentucky, Ohio, and Connecticut). This acquisition strengthens the U.S. operations by providing \$1.5 billion of health and life insurance premium and self-funded premium equivalents and approximately 450,000 additional medical members.

Employee Benefits The Employee Benefits Division provides a full range of employee benefit products to more than 11,300 employers across the United States excluding small case AH&L business. GWL&A offers employers the advantage of a total benefits solution – an integrated package of group life and disability insurance, managed care programs, 401(k) savings plans and flexible spending accounts. Through integrated pricing, administration, funding, and service, the Division helps employers provide cost-effective benefits that will attract and retain quality employees, and at the same time, helps employees reach their personal goals by offering benefit choices, along with information needed to make appropriate choices.

During 1998, the Employee Benefits Division experienced:

- significant growth in 401(k) assets under administration,
- increased sales and improved customer retention in group life and health,
- favourable mortality results, and
- license approval for 4 Health Maintenance Organization (HMO) subsidiaries, for a total of 14 fully operational HMOs.

Overall, the financial results for 1998 have improved, with 401(k) revenue premium increasing 21 per cent to \$2.4 billion. Assets under administration in 401(k) increased 36 per cent over 1997, to \$10.3 billion as the result of premium growth and strong equity markets in the United States. Self-funded premium equivalents for group life and health increased 43 per cent. Fee and other income increased 32 per cent to \$766 million, due to life and health sales and strong equity markets. Net income increased in 1998, due to favourable mortality and increased variable fee income associated with strong 401(k) asset growth.

Financial Services The Financial Services Division develops, administers, and sells retirement savings and life insurance products and services for individuals and employees of state and local governments, hospitals and non-profit organizations, and public school districts.

During 1998, the Financial Services Division experienced:

- significant growth in participants and segregated funds assets primarily attributable to Public/Non-Profit (P/NP) business,
- very good persistency in all lines of business, and
- strong sales of Bank Owned Life Insurance (BOLI).

SAVINGS GWL&A's core savings business is the P/NP pension market, providing investment products, administrative and communication services to employees of state and local governments, as well as employees of hospitals and public school districts. The assets of the P/NP business, including segregated funds, increased 13 per cent during 1998 to \$12.1 billion. Much of the growth came from the variable annuity business, which was driven by revenue premium and strong investment returns in the equity markets.

The Division's retirement savings business experienced strong growth. The number of new participants in 1998 was 151,300, compared with 129,200 in 1997, bringing the total lives under administration to 674,000. BenefitsCorp, the company's wholly owned communication and marketing subsidiary, sold 21 new large employer cases and increased the penetration of existing cases by enrolling new employees.

The Division again experienced a very high retention rate in P/NP contract renewals in 1998. Part of this customer loyalty comes from initiatives to provide high-quality service while controlling expenses.

INSURANCE The company continued its conservative approach to the manufacture and distribution of traditional life insurance products, while focusing on customer retention and expense management.

Individual life insurance revenue premiums of \$1.2 billion in 1998 increased 29 per cent from the \$967 million in 1997, due to strong BOLI sales in 1998.

As of year-end 1996, legislation was in place to phase out the tax deductibility of interest on policy loans on Corporate Owned Life Insurance (COLI) products during 1997 and 1998. The company has shifted its emphasis from COLI to new sales in the BOLI market. This product provides long-term benefits for bank employees and was not affected by the 1996 legislative changes.

Investment In spite of generally declining rates, GWL&A's overall investment portfolio earned a yield of 7.4 per cent in 1998 as in 1997, as better returns on the mortgage portfolio offset the effect of lower rates on new investments.

GENERAL FUNDS This period of lower rates may tempt investors to take additional risks in an effort to increase yield. The company, however, continues its program of acquiring quality assets, guided by conservative investment policies that include carefully defined industry, size, and geographical diversification standards that reduce the company's exposure to undue concentration of risk. One of the strategies inherent in the company's program is the identification of various market niches and sectors that offer richer investment value than the market as a whole, while meeting company investment policies.

As at December 31, 1998, approximately 91 per cent of the company's invested assets were cash, bonds, or policy loans. The overall quality of the bond portfolio, the largest single component of the company's invested assets, continues to be high, with virtually 100 per cent of the portfolio rated investment grade.

The aggregate amount of non-performing loans at December 31, 1998 was \$25 million or 0.2 per cent of portfolio investments, compared with \$53 million or 0.3 per cent at the end of 1997. These low levels reflect the company's proactive management of potentially problematic accounts. The total allowance for credit losses was \$141 million at year-end 1998, compared with \$132 million at the end of 1997.

SEGREGATED FUNDS The 29-per-cent increase in the S&P 500 Index was among the many reasons that investors in the U.S. continued to increase their participation in mutual funds during 1998. In response to this increased consumer desire, GWL&A continues to increase its offerings in the variable fund arena and to offer a broad selection of mutual and segregated funds. During 1998, such funds administered by the company grew to \$15.4 billion, compared with \$11.2 billion at year-end 1997. Included in the balance at December 31, 1998 is \$8.8 billion of assets in Maxim and Orchard Funds, which have 30 different portfolio offerings.

OUTLOOK

The ongoing effectiveness of Lifeco and its operating subsidiaries in Canada and the United States is dependent upon timely response to the diverging needs of regional markets and their regulatory environment. Lifeco's structure effectively balances regional control, through management within each region who understand and anticipate market and regulatory developments, with the financial strength of an international organization.

Lifeco and its operating subsidiaries have in place sound strategies for growth and profitability, based upon sustainable competitive advantages. With highly skilled people, efficient operating structures and ready access to capital, these companies are positioned to respond quickly and effectively to market changes. This places Lifeco in a strong position at a time when many competitors, especially in Canada, are embarking on significant organizational changes.

GREAT-WEST LIFE CO INC.
CONDENSED SUPPLEMENTARY FINANCIAL STATEMENTS

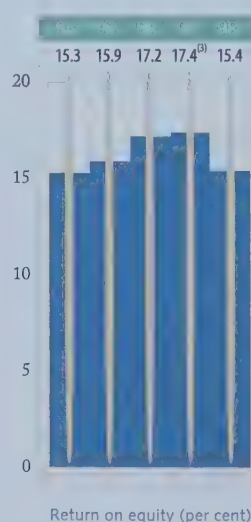
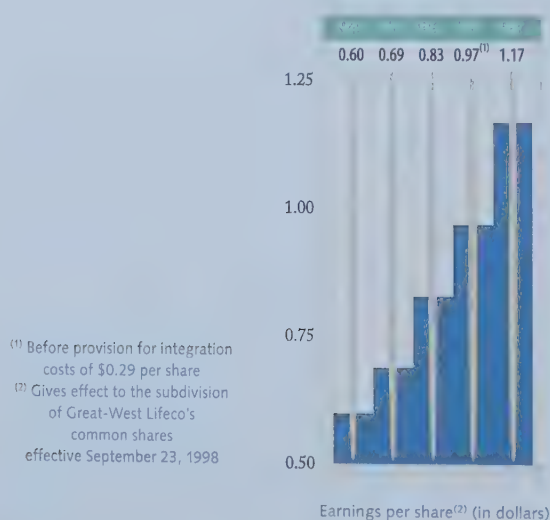
<i>December 31 (in millions of dollars)</i>	1998	1997
Condensed Statements of Earnings		
Premium income	9,237	4,587
Net investment income	3,516	2,185
Fee and other income	1,003	703
	13,756	7,475
Paid or credited to policyholders and beneficiaries	10,680	5,723
Commissions and operating expenses	2,134	1,227
Provision for integration costs		250
	12,814	7,200
Income before income taxes and non-controlling interests	942	275
Income taxes	361	27
Non-controlling interests	108	(2)
Net income	473	250
<i>Per share data (in dollars)</i>		
Earnings before provision for integration costs	1.17	0.97
Provision for integration costs		(0.29)
Earnings	1.17	0.68

Condensed Balance Sheets

Bonds	30,834	28,306
Mortgage loans and other loans	15,461	16,047
Other assets	8,430	7,691
Total assets	54,725	52,044
Policy liabilities	44,690	41,892
Other liabilities	4,404	4,979
Non-controlling interests	2,083	2,011
Preferred shares	519	519
Common shareholders' equity	3,029	2,643
Total liabilities and shareholders' equity	54,725	52,044

Note: Segregated funds and other assets under administration are excluded from the Condensed Supplementary Financial Statements.

GREAT-WEST LIFE CO INC.



INVESTORS GROUP INC.

READERS ARE REFERRED TO THE CONDENSED SUPPLEMENTARY FINANCIAL STATEMENTS OF INVESTORS GROUP ON PAGE 69 OF THE ANNUAL REPORT.

Power Financial holds a 67.4-per-cent interest in Investors Group.

Investors Group offers a comprehensive package of financial planning services and investment products to its client base. This package includes a wide range of mutual funds, insurance, guaranteed investment certificates, annuities, mortgages, brokerage accommodation services for self-directed RRSP's, RRIF's, RESP's, loans for registered investments, as well as other services. This comprehensive package of products and services is provided to the corporation's clients by its network of highly trained and well-supported representatives. As of the end of 1998, the corporate network of financial planning representatives totalled 3,774, as compared with 3,507 at the end of 1997. This significant increase primarily reflects a continuing improvement in the rate of retention of existing representatives, which has been experienced by the corporation during the past several years. In 1998, the retention rate for representatives, as a percentage of the total number of representatives, declined slightly from the prior year but was the second highest level of retention during the past 20 years. In addition, during the year the proportion of representatives with in excess of four years experience continued to increase. This proportion increased to 53 per cent from 49 per cent in the prior year.

Investors Group derives its revenue from a range of sources, but primarily from management fees that are charged to its proprietary group of mutual funds for investment advisory and management services. The corporation also earns revenue from fees charged to its mutual funds for administrative services. These fees are generally based on the net asset values of the funds. Investors Group derives distribution revenue in connection with charges to its account holders for the distribution of its funds by the corporation's group of financial planning representatives, as well as in connection with the distribution of insurance and brokerage products. Additional revenue is derived through investment certificate operations, mortgage operations, as well as through fees earned in connection with providing administrative services to various parties.

During 1997, the corporation acquired a minority interest in Great-West Lifeco. This investment was made in connection with Great-West Life's acquisition of LIG. The acquisition of LIG by Great-West Life, and the corporate alliance that has arisen as a result, provides Investors Group with the opportunity to enhance its capability to fully achieve the key objectives of its corporate strategy. Over time, the corporation should significantly enhance the distribution channel for its own investment fund products through the development of common systems and processes with Great-West Life and LIG. The corporation should also be in a position to realize a greater return on the investment that has been made in distribution, technology, and support. The alliance should also provide Investors Group with an opportunity to distribute a greater number of insurance-based products. Cost efficiencies will also be realized through the combination of certain back office functions and the establishment of common technological platforms across a wide range of operations.

Summarized Financial Information

<i>(in millions of dollars)</i>	1998	1997	Change %
Sales of financial products and services			
Mutual funds	6,296	6,513	(3.3)
Mortgage originations	959	1,002	(4.3)
Deposits	78	94	(16.4)
Insurance (annualized premiums)	19	14	30.3
Net income	188	148	27.7
Assets under management			
Mutual funds	36,064	32,248	11.8
Corporate	1,799	1,765	1.9
Insurance in force (face amount)	14,548	12,279	18.5
Mortgages serviced	8,144	4,157	95.9
Common shareholders' equity	851	747	13.9
Return on equity	23.8%	21.1%	
<i>Per common share (in dollars)</i>			
Earnings	0.89	0.70	27.7
Dividends	0.38	0.30	26.7
Book value	4.03	3.54	13.8

HIGHLIGHTS OF OPERATING RESULTS

In 1998, Investors Group achieved a record net income of \$188.3 million, an increase of 27.7 per cent from 1997 earnings of \$147.5 million. On a per common share basis, net income amounted to \$0.89 in 1998, compared with \$0.70 in 1997.

Fee and investment income totalled \$975.0 million, an increase of 14.5 per cent from 1997. Operating expenses incurred in the earning of fee and net investment income amounted to \$605.3 million in 1998, compared with \$547.5 million in 1997. Excluding commissions, these expenses, as a percentage of average assets under management, amounted to 0.73 per cent in 1998, compared with 0.74 per cent in 1997. This decline in the ratio of expenses to average assets reflects management's effective monitoring and control of expenses.

Shareholders' equity increased to \$850.9 million as at December 31, 1998, from \$747.2 million at December 31, 1997. Return on average common equity was 23.8 per cent, compared with 21.1 per cent in 1997.

During 1998, the quarterly dividend per common share was increased to 10.5 cents or 42 cents on an annualized basis.

FINANCIAL SERVICES ENVIRONMENT

Within the financial services sector, the mutual fund market has continued to assume a more prominent role. The mutual fund market itself has experienced substantial growth during the past decade. During 1998, industry assets under administration increased by \$43.5 billion to \$326.6 billion (as reported by the Investment Funds Institute of Canada). This rate of growth in assets reflects a continuation of significant levels of sales combined with relatively low rates of redemption.

This rate of growth in assets is related to several factors, the most predominant of which is a continuing environment of low interest rates. In addition, the positive impact of demographics on the financial services industry and the expansion in the number of financial services companies selling mutual funds has continued to fuel the popularity of mutual funds.

During the year, sales of Investors Group's mutual funds remained relatively consistent with 1997. Total sales in 1998 of \$6.3 billion represents the second highest level of sales in the history of the corporation, exceeded only slightly by sales of \$6.5 billion in 1997.

Equity and balanced mutual funds continue to be the most significant components of sales. To a large extent, this reflects individual investors' continued desire to participate in equity markets in the longer term. However, during the year, the volatility in equity markets resulted in a slowing in the rate of growth in equity funds while balanced funds continued to experience significant increases in sales during this period. This is a reflection of the desire of some investors to share in market growth while at the same time limiting risk. While sales of fixed income funds experienced significant growth during the year, the levels of fixed income sales continue to lag behind those of equity and balanced funds by a substantial margin.

REVENUES

Fees Investors Group earns management and administration fee income and distribution revenue in the conduct of its core business activities, which are primarily related to the distribution and management of 62 mutual funds, including 9 funds which are managed by a subsidiary: MAXXUM Funds Management Inc. The corporation also derives fee revenue from the investment management and administrative services it provides to its other managed accounts. Total fee income rose to \$855.8 million, an increase of \$129.9 million or 17.9 per cent over 1997.

MANAGEMENT FEES Management fee revenue is derived primarily from services provided to the corporation's mutual funds. Current annual fees for management services range between 1 per cent and 2.25 per cent. As management fee revenue is directly based on assets under management, fee revenue is positively impacted by increases in assets. During 1998, management fee revenue increased by \$96.7 million, or 17.2 per cent, to \$657.6 million. This increase in management fee revenue reflects the increase in mutual fund assets under management.

A key aspect of achieving high levels of assets under management, and thereby providing stable levels of fee revenue, is to ensure that rates of redemption are maintained at low levels. During 1998, Investors Group's funds experienced a redemption rate of 10.0 per cent. This rate is among the lowest in the industry and is substantially below the industry average of 30.0 per cent (excluding Investors Group). The low rate of redemption, combined with strong sales, resulted in the second highest level of net sales of mutual funds ever achieved by the corporation.

Investment management is critical in ensuring that returns are maximized and that the asset values of fund portfolios are maintained at high levels, thereby enhancing management fee revenues. During 1998, investment management services provided reasonable preservation of capital in the corporation's mutual funds despite the declines in the Canadian market and in other financial markets.

ADMINISTRATION FEES The corporation provides administrative and related services to its group of mutual funds through its subsidiaries. During 1998, the corporation earned a total of \$128.8 million in revenue in connection with the provision of administrative and related services, as compared with \$105.9 million in 1997. This increase is mainly attributable to the increase in the levels of mutual fund assets under administration.

DISTRIBUTION FEES Distribution fees are earned by the corporation in connection with the financial products it distributes and primarily in connection with mutual fund products. One component of these fees is redemption fees or back-end loads on equity, balanced, and fixed income funds, that are payable on a declining rate basis where clients redeem their investments within a prescribed period of time. The increase in distribution fees of \$10.2 million in 1998 is mainly attributable to revenues earned from the distribution of insurance products, which increased nearly 40 per cent during the year.

Investment Income Investment income was \$119.2 million in 1998. This represents 12.2 per cent of total gross revenue, as compared with 14.8 per cent in 1997. This percentage decline reflects the substantial increase in fee revenues during the year. Investment income includes interest and dividends earned on cash and short-term investments, marketable securities and mortgage loans, gains and losses on the sale of securities, as well as the corporation's share of earnings of its affiliate. Interest expense consists of interest on deposit liabilities, certificates, and debt.

Net investment income is the difference between investment income, excluding the share of earnings of affiliate, and interest expense. On a taxable equivalent basis, net investment income was \$78.5 million in 1998, a decrease of \$12.7 million or 14.0 per cent from \$91.2 million in 1997. The primary reason for the decrease in net investment income was the decrease in average earning assets. Average earning assets were \$1.28 billion in 1998, a decrease of \$291 million or 18.5 per cent from 1997, primarily due to lower deposit levels. The investment margin was 6.13 per cent in 1998, which is an increase of 32 basis points from 5.81 per cent in 1997. This increase in the investment margin can be analyzed in two components. One of these is the proportion of earning assets that are funded by interest-bearing liabilities. A decrease in this proportion resulted in a 25-basis-point improvement in the investment margin. The second component is a higher investment spread, which accounted for an increase of 7 basis points.

EXPENSES

Commissions Expense The corporation incurs commissions expense in connection with the distribution of its financial services products and primarily in connection with its proprietary mutual funds. Commissions are earned by the corporation's financial planning representatives at the time clients invest in Investors Group's financial services products. Therefore, the corporation's commissions expense fluctuates with levels of sales to a significant extent. Commissions expense also comprises expenditures in connection with compensation provided to representatives for asset retention. This compensation is based on the levels of client assets that a representative maintains and services.

In aggregate, commissions expense increased 8.8 per cent or \$27.7 million to \$340.9 million, as compared with \$313.2 million in 1997. The primary reason for the increase in commissions expense during the year involved expenditures in connection with retention bonuses for the servicing of clients. These payments are based on the amounts of mutual fund assets held in client accounts. During the year, the average amount of mutual fund assets increased by 17 per cent, resulting in a significant increase in this expense.

Non-Commission Expenses Non-commission expenses totalled \$264.4 million in 1998. This total includes expenditures of \$24.8 million for the development and implementation of the corporation's strategic initiatives and expenditures of \$28.5 million for business process improvements. These expenditures included costs incurred in connection with a range of initiatives including the launch of additional products, the support and training of representatives, the improvement of levels of client service, and the establishment and promotion of the Investors Master Series[™] and partner funds. Expenditures were also made in 1998 with respect to the acquisition of the MAXXUM group of mutual funds from London Insurance Group. This acquisition will allow the corporation to share its expertise and scale in the manufacturing and distribution of investment products so as to benefit both London Insurance Group and Great-West Life, as well as to realize certain strategic objectives.

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FINANCIAL POSITION

Investors Group's holdings of securities decreased \$22.8 million or 5.8 per cent to \$370.0 million in 1998. The corporation continually strives to ensure that its portfolio holdings are of the highest quality. In addition, the corporation seeks to manage the market and credit risks associated with securities portfolios. The market value of the corporation's portfolio as at December 31, 1998 exceeds cost by \$129.9 million as compared with \$159.9 million in 1997.

Mortgage loans decreased by \$225.9 million, or 39.3 per cent, to \$348.2 million during 1998 and represent 19.4 per cent of total assets, in comparison with 32.5 per cent in 1997. At December 31, 1998, residential impaired loans totalled \$2.0 million, or 0.52 per cent of the total mortgage portfolio, compared with \$1.1 million, or 0.22 per cent at December 31, 1997. The corporation's allowance for credit losses exceeded residential impaired loans by \$5.1 million at December 31, 1998, compared with \$5.7 million at December 31, 1997.

LIQUIDITY AND CAPITAL RESOURCES

Investors Group's liquidity requirements involve the financing of operations, the servicing of the corporation's debt and equity, and the provision of capital funding to its subsidiaries. In addition, the management of Investors Group wishes to maintain a certain level of liquidity in the event that attractive investment opportunities arise. In 1997, the corporation issued \$125 million of unsecured debentures, maturing on December 13, 2027, with an interest rate of 6.65 per cent. The net proceeds from these debentures have been used for general corporate and investment purposes.

A key aspect of liquidity for the corporation is the funding of mutual fund operations and, more specifically, the funding of commissions paid to representatives. As a result of the reduction in front-end loads, a greater proportion of commissions expense must be funded primarily through revenues earned from the corporation's main source of income, management fees. Generally within the industry, mutual fund companies fund commissions expense by using capital raised through the sale of limited partnerships or by raising capital in equity and debt markets. The corporation has a competitive advantage over many others in the industry because it can rely upon its strong financial position to address funding issues of this nature internally. The management of Investors Group feels that commissions expense can be adequately funded through management fee revenue earned on the mutual fund assets under management.

Investors Group monitors capital adequacy on an ongoing basis. Common shareholders' equity amounted to \$850.9 million at December 31, 1998, or 47.3 per cent of total assets, as compared with 42.3 per cent at year-end 1997. The corporation maintains a conservative leverage ratio (total liabilities divided by shareholders' equity); as at December 31, 1998 it was 1.11, compared with 1.36 at year-end 1997.

During 1998, both the Canadian Bond Rating Service (CBRS) and the Dominion Bond Rating Service (DBRS) maintained their ratings of the corporation's senior debt and certificate liabilities. The senior debt and liabilities were rated A+ Low by CBRS and A High by DBRS. These independent reviews further confirm the continuing quality of the corporation's balance sheet and the strength of its operating results. Management of Investors Group is confident that the corporation's current capital resources are adequate and that they are able to support its activities during 1999.

OUTLOOK

Significant growth in the financial services and mutual fund industries has continued throughout 1998. Some analysts continue to forecast substantial growth for the mutual fund industry, as well as considerable growth for the financial services industry as a whole, throughout the remainder of this decade and well into the next decade. This view is supported by the presence of a number of factors including changes in investment habits, increasing ease of investment, concern over the adequacy of government-sponsored pension plans, and changing demographics. It is evident that an aging population is increasingly turning its attention to saving and investing.

A critical aspect of the future outlook for the corporation involves a consideration of the competitive environment within the financial services and mutual fund industries. In addition to competition from other mutual funds, the corporation is increasingly in competition with investment alternatives offered by a number of other financial services organizations including banks, brokers, and life insurance companies.

Clearly, the dominant competitive force in retail financial services is the banking industry. During 1998, banks continued to maintain a significant share of the mutual fund market. Money market fund assets continued to comprise a substantial portion of bank mutual fund assets, which is reflective, in part, of the process of disintermediation. However, the banks also continued to increase investment in non-money market funds. The management of Investors Group feels that the presence of the banks in the mutual fund industry has, and will continue to have, the ancillary effect of attracting conservative investors and depositors to mutual fund investments, thus accelerating the rate of growth for this industry as a whole. This, of course, has had a substantially positive impact on the corporation, which is strategically positioned to capitalize on changes in the saving and investing habits of Canadians.

The management of Investors Group is of the view that the corporation can significantly enhance its competitive position in the mutual fund industry, and in financial services generally, through the offering of a broader range of financial products to its existing clients, as well as through increased diversification of its core products. The management of Investors Group believes that this strategy will result in increases in the rates of client retention, the development of new clients, and the maintenance of existing client relationships. In addition, this strategy will assist representatives in diversifying as well as increasing their incomes as a result of an expansion in relationships with clients.

The corporation recognizes stock brokers, independent financial planners, and life insurance agents as key competitors. During 1998, brokers continued to expand their distribution network of financial products which includes a number of mutual funds and a broad range of other products. In addition, during the year, the expansion into Canada of several U.S. brokerage houses is an indication of increased competition in the market place. Mutual fund dealers have also been successful in expanding their distribution network and increasing their penetration of the advice-seeking market. Important developments in this area during the year involved the consolidation of a number of organizations into larger firms and the trend toward increased vertical integration whereby these organizations are developing increased manufacturing capabilities. While developments of this nature do represent challenges, the management of Investors Group is confident that its well-established network of financial planning representatives and its substantial capability in mutual fund manufacturing will continue to assist the corporation in maintaining its leading position in mutual funds and financial planning, and in advancing its position as a primary distributor of a range of financial products.

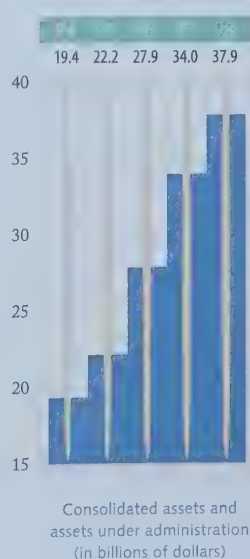
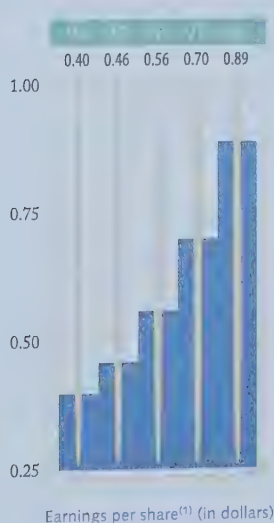
The future outlook may also be affected by any corrections in domestic and international equity markets and by any increases in interest rates. During 1998, many equity markets experienced declines, particularly during the third quarter. This had the effect of slowing the demand for mutual funds during part of the year. However, in general, growth in the mutual fund market is expected to continue at a significant rate over the longer term. In addition, while any increases in interest rates could significantly impact both equity markets and mutual fund sales, the management of Investors Group believes that its representatives perform an effective role in periods of declining markets by encouraging clients to assume a long-term investment outlook and continue to invest for the future.

Declines in the values of equity markets could also result in increased redemptions in mutual funds. However, the management of Investors Group is of the view that the industry has performed an important role in educating mutual fund investors and in emphasizing the benefits of long-term investment. Redemption rates in the industry as a whole, excluding money market funds, increased slightly during the year to 16.2 per cent. The redemption rate for the corporation's mutual funds remained relatively level at 8.3 per cent, despite the corrections which were experienced in some equity markets. The redemption rates for these funds remain among the lowest in the industry. The management of Investors Group feels that its financial planning representatives have performed a key role in maintaining low redemption rates. Representatives achieve this by educating and advising clients with regard to the value of a long-term investment strategy and the benefits of an appropriate level of diversification in their portfolios.

INVESTORS GROUP INC.
CONDENSED SUPPLEMENTARY FINANCIAL STATEMENTS

<i>December 31 (in millions of dollars)</i>	1998	1997
Condensed Statements of Earnings		
Gross revenue		
Fee income	856	726
Investment income	119	126
	975	852
Operating income	929	797
Operating expenses	605	547
Income before income taxes	324	250
Income taxes	136	102
Net income	188	148
Earnings per share <i>(in dollars)</i>	0.89	0.70
Condensed Balance Sheets		
Cash and short-term investments	570	321
Securities	370	393
Investment in affiliate	271	265
Mortgage loans	348	574
Other assets	240	212
Total assets	1,799	1,765
Deposits and certificates	372	488
Debentures and notes	262	264
Other liabilities	314	266
Shareholders' equity	851	747
Total liabilities and shareholders' equity	1,799	1,765

INVESTORS GROUP INC.



PARGESA HOLDING S.A.

Highlights of Operating Results Power Financial Corporation and the Frère group, of Charleroi, Belgium, each holds 50 per cent of Parjointco N.V. (Parjointco), a Dutch company and sole joint vehicle for their European investments.

As at December 31, 1998, Parjointco held 61.2 per cent of the voting rights (1997 – 62.4 per cent) and a 54.7-per-cent equity interest (1997 – 55 per cent) of Pargesa Holding S.A. (Pargesa), the parent holding company of the Pargesa group. The shares of Pargesa are listed on the Swiss Exchange.

At that same date, the carrying value of Power Financial Corporation's interest in Parjointco was \$1,240 million, compared with \$892 million in 1997. This increase of \$348 million represents Power Financial's share of the net earnings of Parjointco, foreign currency translation adjustments and other items, less dividends received.

Pargesa, based in Geneva, Switzerland, holds an equity interest of 48.9 per cent (51.0 per cent voting interest) in Groupe Bruxelles Lambert S.A. (GBL). Based in Brussels, Belgium, GBL is listed on the Brussels, Paris, Amsterdam and Luxembourg stock exchanges. Since the amalgamation of Parfinance with Imétal, a company listed on the Paris Stock Exchange, Pargesa and GBL together hold the controlling interest of 53.3 per cent in Imétal. Pargesa also holds an 84.5-per-cent interest in Orior Holding S.A. (Orior), based in Vevey, Switzerland. Orior, a company primarily active in the food industry, is listed on the Swiss Exchange.

The Pargesa group holds directly or through intermediary holding companies controlled by GBL, including Electrafina S.A. and Audiofina S.A., the group's investments in various large European companies active in the communications, industrial, energy, utility and food sectors.

Pargesa Holding S.A.

<i>December 31 (in millions)</i>	1998		1997	
	SF	\$ ⁽¹⁾	SF	\$ ⁽¹⁾
Operating earnings	169	173	175	167
Net earnings	846	868	731	698

(1) Average Swiss franc to Canadian dollar: 1998 – 1.0258, 1997 – 0.9548

Over the last few years, Pargesa has taken steps to:

- focus on a limited number of selected industrial and services groups that are well positioned in their respective markets and over which the group has full or joint control, or at least a significant interest,
- streamline the corporate structure of the group while strengthening its financial position.

As a result, the portfolio of investments has changed significantly. As discussed elsewhere in the report, several investments were sold – for example, all of the group's interests in the banking and financial services industry – while, in other instances, the equity interest in group companies was increased. Furthermore, new investments were made (Suez Lyonnaise des Eaux) and strategic alliances were forged (CLT-UFA). At the same time, cash resources increased significantly. As at year-end 1998, the net asset value of Pargesa (based on market prices for listed companies) could be summarized as follows:

Pargesa – Net Asset Value (flow-through basis)

As at December 31, 1998 (in millions of dollars)	Market value	%
Suez Lyonnaise des Eaux (10.7 per cent – largest shareholder)	1,856	29.7
PetroFina (22.6 per cent – largest shareholder) ⁽¹⁾	1,388	22.2
Imétal (53.3 per cent – controlling shareholder)	956	15.3
Audiofina (51.5 per cent – controlling shareholder) ⁽²⁾	868	13.9
Orior Holding (84.5 per cent – controlling shareholder)	148	2.4
Other assets	234	3.7
Net cash and cash equivalents ⁽³⁾	1,148	18.3
Long-term debt ⁽³⁾	(345)	(5.5)
Total	6,253	100

Note: Percentage of ownership denotes the cumulative interests of the subsidiaries and affiliates of Pargesa Holding S.A. as at December 31, 1998.

(1) After completion of the Total/PetroFina transaction, the group would own 6.8 per cent of Total Fina.

(2) Audiofina holds a 50-per-cent interest in CLT-UFA Holding.

(3) Pargesa's share of net cash and cash equivalents or long-term debt.

Net asset value per share stood at SF3,376 as at December 31, 1998; at the same time, market price was SF2,170 per share, which represents a discount of 36 per cent from net asset value. From an accounting standpoint, the transactions referred to above have resulted in a reduction in the number of investments accounted for under the equity method and in an increase in dividend (as Suez Lyonnaise des Eaux is accounted for at cost, as will be Total Fina in 1999) and interest income. The group also recorded significant capital gains (\$1,342 million in aggregate, between 1996 and 1998).

Pargesa Group Supplementary Financial Information

As at December 31, 1998 (in millions of dollars) ⁽¹⁾

	PARGESA HOLDING S.A.	GRUPE BRUXELLES LAMBERT S.A.	ORIOR HOLDING S.A.
Cash and temporary investments ⁽²⁾	307	3,145 ⁽³⁾	12
Long-term debt		675 ⁽⁴⁾	107
Shareholders' equity	4,430	6,429	190
Market capitalization	4,019	7,573	175

(1) Foreign currencies have been converted into Canadian dollars at the year-end rate.

(2) Net of financial debt due within one year.

(3) Including net cash and temporary investments of Audiofina S.A. and Electrafina S.A., which amounted to \$1,152 million at December 31, 1998.

(4) Including convertible bonds issued in 1998 by GBL, for an amount of \$410 million.

Pargesa's operating earnings totalled SF169 million in 1998, compared with SF175 million in 1997. Taking into account the increase of approximately 7 per cent in the average value of the Swiss franc against the Canadian dollar, Power Financial's share of its European affiliate's operating earnings, expressed in Canadian currency, was \$46 million in 1998, compared with \$43 million in 1997.

The slight decline in Pargesa's operating earnings in 1998 is primarily related to the termination of the contributions from Banque Bruxelles Lambert (disposed of in December 1997) and Royale Belge (disposed of in May 1998) and, to a lesser extent, of the dividends from the investments in Paribas and AXA, also disposed of in 1998. These factors were partially offset by growth in the contributions from Imétal and PetroFina, leveraged by the increase in the group's economic interest in these companies, and the rise in investment income including, specifically, the dividend received from Suez Lyonnaise des Eaux.

Net gains recorded in 1998 (SF677 million) result primarily from the disposal of Pargesa's interests in Royale-Vendôme (the intermediary holding company that controlled the interest in Royale Belge), AXA and Paribas securities, and on the sale of the ING securities received when Banque Bruxelles Lambert was disposed of in December 1997.

In the first quarter of 1998, Parfinance, a holding company of the group in France, disposed of its interests in Paribas and AXA for gross proceeds of \$710 million and pre-tax capital gains of \$210 million. In June 1998, Parfinance distributed a total dividend of \$620 million to its shareholders (88 per cent of which was distributed to Pargesa and GBL) before being amalgamated with its subsidiary, Imétal. The cash contributed by Parfinance to Imétal in the context of this amalgamation amounted to \$250 million. The group's interest in Imétal is now held jointly and directly by Pargesa and GBL. At the end of 1998, Pargesa's economic interest in Imétal was 40.0 per cent, compared with 36.8 per cent in 1997.

I M É T A L S . A .

In 1998, Imétal once again saw an increase in its sales and operating results, primarily as a result of strategic decisions taken in the last few years to promote internal and external growth. In France, the division that processes minerals for the construction market, especially the manufacture of terracotta tiles, benefited from an increase in new individual housing starts. Activity in the industrial minerals processing division, meanwhile, was bolstered by acquisitions made over the last few years.

In January 1999, Imétal initiated a takeover bid for all the shares of English China Clays plc, listed on the London Stock Exchange, valuing that company at \$1.9 billion. The acquisition, subject to approvals by the competent authorities, will make Imétal a world leader in white pigments, including kaolin and calcium carbonate, for the pulp and paper, chemical and ceramics industries.

G R O U P E B R U X E L L E S L A M B E R T S . A .

GBL's investments are held directly or mainly through Electrafina S.A. and Audiofina S.A.

In May 1998, GBL sold its 25.1-per-cent interest in Royale-Vendôme to AXA. Part of the transaction was settled in cash and the balance in AXA shares, which were disposed of in the market. In the end, the total cash generated by the sale of the interest in Royale-Vendôme amounted to \$1.2 billion.

As part of this transaction, GBL also redeemed 9.8 per cent of its own shares from AXA for \$600 million. A portion of the redeemed shares was used as security for the issuance of a convertible bond in the amount of \$410 million, the balance was delivered on the exercise of GBL warrants issued in 1994 and maturing in 1998.

In June 1998, GBL increased its interest in Electrafina by purchasing 24.4 per cent of the share capital held by Vivendi for an amount of \$1.7 billion. At the end of 1998, GBL's interest in Electrafina stood at 76.8 per cent and has been further increased during the first quarter of 1999 to 78.8 per cent for an amount of \$130 million.

On December 1, 1998, five shareholders of PetroFina S.A., including Electrafina, announced their intention to contribute all of their PetroFina shares, or 41 per cent of PetroFina's share capital, to the French company Total in order to create the group Total Fina, which would become the third largest oil company in Europe and the fifth largest in the world. These contributions and the principle of an exchange offer for all PetroFina securities were approved at the January 14, 1999 Total shareholders' meeting. This transaction should be completed in the second quarter of 1999. Assuming that all of PetroFina's shares are tendered in the exchange offer, the Pargesa group, with 6.8 per cent of the share capital, would be the principal shareholder of the newly formed company.

During 1998, GBL disposed of the aggregate of its ING securities, received when Banque Bruxelles Lambert was sold in December 1997, for \$1.3 billion, resulting in a gain of \$360 million. GBL's holdings in Groupe Jean Dupuis, Bernheim Comofi, Transcor, Distripar, Dewaay, Fibelpar, Havas and Banque Artesia were also disposed of in 1998, for a total of \$910 million.

PetroFina reported a slight increase in recurring earnings in 1998. Net earnings were affected by factors such as inventory write-downs and accelerated depreciation on certain assets. This operational performance was achieved in a macroeconomic context that saw crude oil prices decrease 33 per cent and American natural gas prices fall almost 20 per cent.

CLT-UFA, for its part, practically doubled its operating earnings from established television and radio station networks. In addition, the company recorded significant expenses related to the start-up of new television and radio operations, including Channel 5 in Great Britain and the digital version of Première in Germany. Start-up expenses are charged directly to earnings and are not capitalized. In March 1999, CLT-UFA announced that it had reached an agreement with the German group Kirch to sell a significant portion of its interest in Première's share capital to this group for an amount of \$1.3 billion; CLT-UFA would retain 5 per cent of Première.

Given the group's present ownership interest, the contribution of Suez Lyonnaise des Eaux to the group's results is recorded only on the basis of dividends received. In 1998, Suez Lyonnaise des Eaux experienced new accelerated growth in its core businesses, particularly at the international level, which, combined with various disposals and efforts to simplify its structures, resulted in an appreciable increase in earnings. During the year, the group invested a further \$360 million in Suez Lyonnaise des Eaux to bring its interest in that company to 10.7 per cent of the capital as at December 31, 1998.

OUTLOOK

The Pargesa group intends to continue to focus its activities on a small number of large Europe-based businesses. It wants to concentrate on developing these businesses from a strategic standpoint while simplifying and consolidating its own financial structure. With combined cash resources of \$3.4 billion as at December 31, 1998, the Pargesa group is well positioned to capitalize on any new long-term investment opportunities which may arise.

Composition of Pargesa's Net Earnings

As at and for the year ended December 31 (in millions of dollars)⁽¹⁾

	CUMULATIVE EQUITY INTEREST %	PARGESA'S ECONOMIC INTEREST %	CONTRIBUTIONS TO PARGESA'S EARNINGS			
			1998		1997	
			\$	%	\$	%
Contribution from Principal Holdings						
▪ Equity accounted						
Imétal (industrial)	53.3	40.0	65	37	52	31
PetroFina (oil and gas)	22.6	8.5	53	31	45	27
CLT-UFA (communications)	50.0	9.5	(6)	(4)	(6)	(3)
▪ Non-consolidated						
Suez Lyonnaise des Eaux (public services)	10.7	4.0	12	7	8	5
▪ Sold						
Royale Belge (sold in May 1998) ^{(2) (3)}			15	9	21	13
Paribas, AXA-UAP (sold in March 1998)					9	5
BBL (sold in December 1997) ⁽³⁾					28	16
			139	80	157	94
Other companies subject to equity accounting			21	12	18	11
Operating earnings from holding companies, net of goodwill			13	8	(8)	(5)
Earnings, before capital gains, net			173	100	167	100
Capital gains, net			695		531	
Net earnings			868		698	
Average currency rate			1.0258		0.9548	

(1) Converted into Canadian dollars based upon average exchange rates.

(2) Excluding gains on sale of BBL (in 1997); contribution to Pargesa's earnings includes Royale-Vendôme's corporate activities.

(3) Equity accounted.

P o w e r F i n a n c i a l C o r p o r a t i o n

F i n a n c i a l I n f o r m a t i o n

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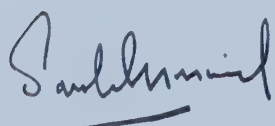
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POWER FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS

<i>As at December 31 (in millions of dollars)</i>	1998	1997
Assets		
Cash and temporary investments	1,670	1,577
Investments (Note 3)		
Shares	1,303	1,336
Bonds	30,867	28,330
Mortgages and other loans	15,809	16,624
Real estate	1,081	1,449
	49,060	47,736
Investment in affiliate, at equity (Note 4)	1,240	892
Other assets (Note 5)	6,063	4,787
	58,033	54,992
Liabilities		
Policy liabilities		
Actuarial liabilities (Note 6)	41,128	38,578
Other	3,562	3,314
Deposits and certificates	372	488
Long-term debt (Note 7)	837	979
Other liabilities (Note 8)	4,512	4,881
	50,411	48,240
Non-controlling interests (Note 9)	3,450	3,272
Shareholders' Equity		
Stated capital (Note 10)		
Preferred shares	550	582
Common shares	543	539
Retained earnings	2,619	2,144
Foreign currency translation adjustments	460	215
	4,172	3,480
	58,033	54,992

Approved by the Board of Directors



Director



Director

CONSOLIDATED STATEMENTS OF EARNINGS

For the years ended December 31 (in millions of dollars)

	1998	1997
Revenues		
Premium income	9,237	4,587
Investment income	3,672	2,335
Fee income	1,858	1,429
	14,767	8,351
Expenses		
Paid or credited to policyholders and beneficiaries including policyholder dividends and experience refunds	10,680	5,723
Commissions and operating expenses	2,769	1,802
Interest expense	88	75
	13,537	7,600
	1,230	751
Share of earnings of affiliate (Note 4)	46	13
Other income, net (Note 12)	173	25
Earnings before income taxes and non-controlling interests	1,449	819
Income taxes (Note 13)	483	114
Non-controlling interests (Note 9)	288	102
Net earnings	678	603
Earnings per common share	1.87	1.70

POWER FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

<i>For the years ended December 31 (in millions of dollars)</i>	1998	1997
Retained earnings, beginning of year – as previously reported	2,144	1,760
Share of impact of changes in accounting policies of Great-West Lifeco Inc. (Note 2)		(36)
As restated	2,144	1,724
Add		
Net earnings	678	603
Discount on redemption of First Preferred Shares 1969 Series	1	
	2,823	2,327
Deduct		
Dividends		
Preferred shares	31	18
Common shares	173	152
Reduction due to capital transactions		13
	204	183
Retained earnings, end of year	2,619	2,144

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the years ended December 31 (in millions of dollars)

	1998	1997
Operations		
Net earnings	678	663
Non-cash charges (credits)		
Increase (decrease) in policy liabilities	1,684	73
Decrease (increase) in funds withheld by ceding insurers	(1,235)	(383)
Amortization and depreciation	75	30
Deferred income taxes	113	(104)
Non-controlling interests	288	102
Other	(685)	(71)
Cash from operations	918	250
Dividends Paid		
Non-controlling interests	(118)	(73)
Preferred shares	(31)	(15)
Common shares	(164)	(148)
	(313)	(236)
Financing Activities		
Issue of preferred shares		300
Repurchase of preferred shares	(31)	
Repurchase of preferred shares by a subsidiary		(312)
Repayment of long-term debt, commercial paper and other loans	(210)	(311)
Issue of long-term debt		125
Decrease in deposits and certificates	(116)	(497)
Other	(6)	3
	(363)	(600)
Investment Activities		
Disposal (acquisition) of investments – net	(149)	1,342
Investment in London Insurance Group Inc. net of cash and temporary investments at date of acquisition		(27)
	(149)	1,315
Increase in cash and temporary investments	93	634
Cash and temporary investments, beginning of year	1,577	946
Cash and temporary investments, end of year	1,670	1,577

POWER FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada and include the accounts of the Corporation and its subsidiaries.

The preparation of financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions that affect the amounts reported in those statements and accompanying notes. The reported amounts and note disclosures are determined using Management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action. Actual results may differ from such estimates.

The principal operating subsidiaries are: Great-West Lifeco Inc. ("Lifeco") (direct interest of 76.9%, 1997 – 76.8%), which holds 99.6% (1997 – 99.5%) of the common shares of The Great-West Life Assurance Company ("Great-West"), which in turn holds 100% of the common shares of London Insurance Group ("LIG") and 100% of the common shares of Great-West Life & Annuity Insurance Company, and Investors Group Inc. ("Investors Group") (interest of 67.4%) which holds 4.3% (1997 – 4.3%) of the common shares of Lifeco. The Corporation accounts for its investment in its affiliate using the equity method.

Investments Investments, other than those held by Great-West, are accounted for as follows: Investments in shares are carried at cost; where there has been a loss in value that is other than a temporary decline, a write-down is made to recognize the loss. Bonds, mortgages and other loans are valued at amortized cost plus accrued interest less provisions for losses. Real estate investments are valued at cost less provisions for losses.

Investments held by Great-West are accounted for as follows:

Investments in shares (equity securities) are carried at cost plus a moving average market value adjustment of \$7 million (1997 – \$13 million). The carrying value is adjusted towards market value at a rate of 15% per annum. Net realized gains and losses are included in Net deferred gains on portfolio investments sold and are amortized to earnings at 15% per annum on a declining balance basis. Market values for public stocks are generally determined by the closing sale price of the exchange on which the security is principally traded. Market values for stocks for which there is no active market are determined by management.

Investments in bonds and mortgage loans (debt securities) are carried at amortized cost net of any allowance for credit losses. The difference between the proceeds on the sale of a debt security and its amortized cost is considered to be an adjustment of future portfolio yield. Net realized gains and losses are included in Net deferred gains on portfolio investments sold and are amortized over the period to maturity of the security sold.

Investments in real estate are carried at cost net of write-downs and allowances for loss, plus a moving average market value adjustment of \$28 million (1997 – \$37 million). The carrying value is adjusted toward market value at a rate of 10% per annum. Net realized gains and losses are included in Net deferred gains on portfolio investments sold and are amortized to earnings at 10% per annum on a declining balance basis. Market values for all properties are determined annually by management based on a combination of the most recent independent appraisal and current market data available. Appraisals of all properties are conducted at least once every three years by qualified appraisers.

Other loans, which include loans to policyholders, are shown at their unpaid balance and are fully secured by the cash surrender values of the policies.

Income Taxes Income taxes are accounted for using the deferral method of income tax allocation. Under this method, a provision for deferred income taxes arises as a result of differences in the timing of income recognition for financial statement and income tax purposes. The major timing differences relate to portfolio investments, provision for future policy benefits and the amortization of capital assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Actuarial Liabilities Actuarial liabilities of Great-West represent the amount which, together with estimated future premiums and investment income, will be sufficient to pay estimated future benefits, dividends and expenses on policies in force. Actuarial liabilities are determined using generally accepted actuarial practices, according to standards established by the Canadian Institute of Actuaries. In accordance with these accepted practices, annuity reserves and LIG's group life and health claim reserves have been established using cash flow valuation techniques. All other reserves have been determined using the policy premium method.

In the computation of actuarial liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses and rates of policy termination. The valuation assumptions use best estimates of future experience together with a margin for misestimation and experience deterioration. These margins have been set in accordance with guidelines established by the Canadian Institute of Actuaries and are necessary to provide reasonable assurance that the reserves are adequate to cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

Goodwill Goodwill, being the difference between the cost of the investment in subsidiaries and affiliate and the fair value of the underlying net assets at the dates of acquisition, is amortized over periods not exceeding forty years using the straight-line method. The Corporation reviews the value assigned to goodwill to determine if it has been permanently impaired in value by conditions affecting the subsidiaries and affiliate, using projections of future earnings and cash flow of the related subsidiaries and affiliate. Management is of the opinion that there has been no reduction in the value assigned to goodwill.

Funds withheld by Ceding Insurers Under certain forms of reinsurance contracts, it is customary for the ceding insurer to retain the assets on the underlying insurance policy.

Repurchase Agreements Great-West enters into repurchase agreements with third-party broker-dealers in which Great-West sells securities and agrees to repurchase substantially similar securities at a specified date and price. Such agreements are accounted for as investment financings.

Derivative Financial Instruments The Corporation and its subsidiaries use derivative products as risk management instruments to hedge or manage asset and liability positions within guidelines approved by management.

The accounting policies used for derivative financial instruments used for hedging correspond to those used for the underlying hedged position.

POWER FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign Currency Translation All assets and liabilities denominated in foreign currency are translated into Canadian dollars at exchange rates prevailing at the balance sheet date for monetary items and at exchange rates prevailing at the transaction dates for non-monetary items. The Corporation and its subsidiaries follow the current rate method of foreign currency translation for their net investments in self-sustaining foreign operations. All income and expenses are translated at average rates prevailing during the year. Exchange gains and losses are included in earnings except those related to self-sustaining operations and financing related thereto, which are deferred in the shareholders' equity section of the balance sheet.

Pension Plans and Other Post-Retirement Benefits The Corporation and its subsidiaries participate in funded defined benefit pension plans for certain employees and agents and unfunded supplementary employee retirement plans for certain executive officers. Direct contributions are being made to the funded pension plans and current service costs are being charged to earnings. The actuarially determined cost of the unfunded supplementary employee retirement plans is being charged to earnings over the estimated service life of the officers covered by the plans.

The Corporation and its subsidiaries also provide post-retirement health and life insurance benefits to eligible retirees, the cost of which is recognized as incurred.

Comparative Figures Certain of the 1997 amounts presented for comparative purposes have been reclassified to conform with the presentation adopted in the current year.

2. CHANGES IN ACCOUNTING POLICIES

- (a) In 1997, Lifeco adopted the new requirements of the CICA on Income Taxes, the major impact of which is the non discounting of future income taxes. This change in accounting policy has been applied retroactively with no restatement of prior years' financial statements. As a result of this change future income taxes receivable were increased by \$22 million, and actuarial liabilities were increased by \$34 million.
- (b) In order to comply with Accounting Guideline #9 issued by the CICA in 1997, Lifeco:
 - (i) wrote down the carrying value of the real estate portfolio by \$75 million as the decline in value was determined to be other than temporary when considered separately from the equity portfolio and increased future income taxes receivable by \$30 million. This change in accounting policy has been applied retroactively with no restatement of prior years' financial statements.
 - (ii) adopted the accrual method of determining the portion of the operating income of participating policyholders to which shareholders are entitled. This change in accounting policy has been applied retroactively with no restatement of prior years' financial statements.

The Corporation's share of the above changes amounts to \$36 million and is reflected in the Consolidated Statements of Retained Earnings.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. INVESTMENTS

(in millions of dollars)

	CARRYING VALUE			
	HELD BY GREAT-WEST	HELD BY THE CORPORATION AND OTHER SUBSIDIARIES	TOTAL	ESTIMATED MARKET VALUE
1998				
Shares	792	511	1,303	1,475
Bonds	30,834	33	30,867	32,237
Mortgages and other loans	15,461	348	15,809	16,236
Real estate	1,072	9	1,081	1,183
	48,159	901	49,060	51,131
1997				
Shares	790	546	1,336	1,506
Bonds	28,306	24	28,330	29,355
Mortgages and other loans	16,047	574	16,621	17,025
Real estate	1,440	9	1,449	1,551
	46,583	1,153	47,736	49,437

Term to Maturity and Interest Range of Bonds and Mortgage Loans

(in millions of dollars)

	1 YEAR OR LESS	1-5 YEARS	OVER 5 YEARS	TOTAL	EFFECTIVE INTEREST RATE RANGES
1998					%
Bonds	2,723	8,265	19,879	30,867	3.4-13.8
Mortgage loans	1,889	5,607	2,709	10,205	4.0-14.5
1997					
Bonds	4,017	9,124	15,189	28,330	3.5-16.4
Mortgage loans	2,322	6,200	2,946	11,468	3.3-15.5

Other loans, which consist of loans to policyholders of \$5,604 million (1997 - \$5,153 million), do not have a fixed term. They have interest rates ranging from 5% to 8% (1997 - 5% to 8%).

Included in investments are the following:

Impaired Loans

(in millions of dollars)	1998	1997
Bonds	4	9
Mortgage loans	61	89
Foreclosed real estate	37	65
	102	163

Impaired loans include non-accrual loans and foreclosed real estate held for sale. Bond and mortgage investments are reviewed on a loan by loan basis to determine impaired status. Loans are classified as non-accrual when:

- (1) Payments are 90 days or more in arrears, except in those cases where, in the opinion of management, there is justification to continue to accrue interest; or
- (2) The Corporation no longer has reasonable assurance of timely collection of the full amount of the principal and interest due; or
- (3) Modified/restructured loans are not performing in accordance with the contract.

POWER FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. INVESTMENTS (CONTINUED)

Where appropriate, provisions are established or write-offs made to adjust the carrying value to the net realizable amount. Wherever possible the fair value of collateral underlying the loans or observable market price is used to establish net realizable value.

Allowance for Credit Losses

<i>(in millions of dollars)</i>	1998	1997
Bonds	22	20
Mortgage loans	187	176
Foreclosed real estate	1	1
	210	197

Changes in the Allowance for Credit Losses

<i>(in millions of dollars)</i>	1998	1997
Balance, beginning of year	197	178
Provisions for credit losses	13	23
Recoveries	9	5
Write-offs	(18)	(33)
Other	9	24
Balance, end of year	210	197

The allowance for credit losses includes general provisions, established at a level that, together with the provision for future credit losses included in actuarial liabilities, reflects Great-West's and Investors Group's estimates of potential future credit losses.

Investments in real estate include an asset value allowance, which provides for deterioration of market values associated with real estate held for investment amounting to \$38 million (1997 – \$38 million).

Also included in mortgages and other loans are modified/restructured loans that are performing in accordance with their current terms amounting to \$409 million (1997 – \$444 million).

The balance of net deferred gains (losses) on portfolio investments sold comprise the following:

<i>(in millions of dollars)</i>	1998	1997
Shares	490	543
Bonds	857	717
Mortgage loans	64	5
Real estate	11	16
	1,422	1,281

Investment income includes the amortization of net deferred realized gains on portfolio investments and of net unrealized gains on shares and real estate investments of \$227 million (1997 – \$144 million).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. INVESTMENT IN AFFILIATE AT EQUITY

<i>(in millions of dollars)</i>	1998 ⁽¹⁾	1997 ⁽¹⁾
	PARJOINTCO N.V.	
Carrying value, beginning of year	892	868
Share of earnings	46	43
Share of gains on disposal of long-term investments, net ⁽²⁾	174	113
Foreign currency translation adjustments	166	(97)
Amortization of goodwill	(6)	(5)
Dividends	(32)	(30)
Carrying value, end of year	1,240	892
Share of equity, end of year	1,186	824

(1) Parjointco N.V., 50% held by the Corporation, held a voting interest of 61.2% (1997 – 62.4%) and an equity interest of 54.7% (1997 – 55.0%) in Pargesa Holding S.A.

(2) After deduction of goodwill associated with investments sold.

5. OTHER ASSETS

<i>(in millions of dollars)</i>	1998	1997
Dividends and interest receivable	731	691
Premiums in course of collection	378	409
Deferred income taxes	208	276
Goodwill, net of amortization	1,680	1,735
Funds withheld by ceding insurers	2,174	939
Other, including fixed assets, net of accumulated depreciation	892	737
	6,063	4,787

6. ACTUARIAL LIABILITIES

The composition of actuarial liabilities is as follows:

<i>(in millions of dollars)</i>	1998	1997
Individual – Life	18,147	16,009
– Annuity	6,436	7,286
– Health	178	172
Group – Life	767	652
– Annuity	9,106	9,578
– Health	2,272	2,061
Reinsurance	4,212	2,814
Property & casualty	10	6
	41,128	38,578

POWER FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. LONG-TERM DEBT

<i>(in millions of dollars)</i>	1998	1997
Power Financial Corporation		
Exchangeable debentures, due April 30, 2014 ⁽ⁱ⁾	167	167
7.65% debentures, due January 5, 2006 ⁽ⁱⁱ⁾	150	150
Investors Group Inc.		
10.65% debentures 1989 series, due June 15, 1999	100	100
6.65% debentures 1997 series, due December 13, 2027	125	125
London Insurance Group Inc.		
First mortgages secured by real estate and limited recourse mortgages at interest rates from 6.4% to 11.4% maturing at various dates to 2012	145	285
Other notes payable at interest rates from 4.3% to 9.0%	39	41
9.375% Senior debentures due January 8, 2002 unsecured	100	100
6.875% Senior debentures due September 15, 2005, unsecured (U.S. \$7)	11	11
	837	979

(i) Exchangeable debentures, due April 30, 2014, bear interest at an annual rate equal to the rate represented by the dividend paid on common shares of BCE Inc. divided by \$19.25, plus 1%. The debentures are redeemable prior to maturity at the option of the Corporation at a price equal to the principal amount together with accrued and unpaid interest; the redemption price may be satisfied by the delivery of up to 8,691,122 common shares of BCE Inc. or cash, at the debenture holders' option. The BCE Inc. shares are included in Investments-Shares at a cost of \$18.875 per share (market value, 1998 – \$57.85, 1997 – \$47.65).

(ii) These debentures were effectively converted into a Swiss franc denominated debt (SF127,518,490) bearing interest at 4.43% payable semi-annually through a ten-year cross-currency swap transaction. The carrying value of this swap transaction is included in Other assets.

Interest expense on long-term debt amounted to \$65 million (1997 – \$39 million).

The maximum aggregate amount of principal payments on long-term debt in each of the next five years is as follows: \$102 million in 1999; \$7 million in 2000; \$23 million in 2001; \$143 million in 2002; and \$37 million in 2003.

8. OTHER LIABILITIES

<i>(in millions of dollars)</i>	1998	1997
Accounts payable and accrued liabilities	2,207	2,221
Commercial paper and other loans	305	374
Dividends and interest payable	58	48
Income taxes payable	146	249
Repurchase agreements	374	708
Net deferred gains on portfolio investments sold (Note 3)	1,422	1,281
	4,512	4,881

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. NON-CONTROLLING INTERESTS

<i>(in millions of dollars)</i>	1998	1997
Non-controlling interests include:		
Participating policyholders of Great-West	1,341	1,264
Preferred shareholders of subsidiaries	1,219	1,219
Common shareholders of subsidiaries	890	789
	3,450	3,272
Earnings attributable to non-controlling interests include:		
Earnings of Great-West attributable to participating policyholders	66	(18)
Dividends to preferred shareholders of subsidiaries	71	46
Earnings of subsidiaries attributable to common shareholders	151	74
	288	102

10. STATED CAPITAL

Authorized

First preferred shares, issuable in series – unlimited

Second preferred shares, issuable in series – unlimited

Common shares – unlimited

Issued and Outstanding

	NUMBER OF SHARES	1998 STATED CAPITAL <i>(in millions)</i>	NUMBER OF SHARES	1997 STATED CAPITAL <i>(in millions)</i>
Preferred Shares				
Series A First Preferred Shares ⁽ⁱ⁾	4,000,000	100	4,000,000	100
Series B First Preferred Shares ⁽ⁱⁱ⁾	6,000,000	150	6,000,000	150
Series C First Preferred Shares ⁽ⁱⁱⁱ⁾	6,000,000	150	6,000,000	150
Series D First Preferred Shares ^(iv)	6,000,000	150	6,000,000	150
First Preferred Shares 1969 Series ^(v)			1,287,152	32
		550		582
Common Shares ^(vi)	346,579,998	543	345,591,052	539

- (i) The Series A First Preferred Shares are entitled to an annual cumulative dividend at a floating rate equal to 70% of the prime rate of two major Canadian chartered banks and are redeemable at \$25 per share.
- (ii) The Series B First Preferred Shares are entitled to a \$1.75 annual non-cumulative dividend. Such shares are redeemable by the Corporation on or after February 28, 2003 (i) in cash, at a price per share of \$25, or (ii) by the conversion of each such share to be redeemed into that number of common shares determined by dividing \$25 by the greater of \$3.00 and 95% of the weighted average trading price of the common shares at such time. On or after August 31, 2003, subject to the right of the Corporation to convert into a further series of preferred shares, to redeem for cash or to find substitute purchasers for such shares, each preferred share will be convertible at the option of the holder into that number of common shares determined by dividing \$25 by the greater of \$3.00 and 95% of the weighted average trading price of the common shares at such time.

POWER FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. STATED CAPITAL (CONTINUED)

- (iii) The Series C First Preferred Shares are entitled to a fixed 5.20% annual non-cumulative dividend. Such shares are redeemable by the Corporation on or after October 31, 2007 in cash, at \$26.00 per share if redeemed within the twelve months commencing October 31, 2007, declining by \$0.20 per share for each subsequent twelve-month period thereafter to October 31, 2011, \$25.20 if redeemed on or after October 31, 2011 and before July 31, 2012 and \$25.00 if redeemed on or after July 31, 2012. On or after July 31, 2012, the Corporation may convert each Series C First Preferred Share into that number of common shares determined by dividing \$25 by the greater of \$3.00 and 95% of the weighted average trading price of the common shares at such time. On or after October 31, 2012, subject to the right of the Corporation to convert into a further series of preferred shares, to redeem for cash or to find substitute purchasers for such shares, each preferred share will be convertible at the option of the holder into that number of common shares determined by dividing \$25 by the greater of \$3.00 and 95% of the weighted average trading price of the common shares at such time.
- (iv) The Series D First Preferred Shares are entitled to a fixed 5.50% annual non-cumulative dividend. Such shares are redeemable by the Corporation on or after January 31, 2013 in cash at a price per share of \$25.
- (v) During the year, the Corporation redeemed all outstanding First Preferred Shares 1969 Series for a cash consideration of \$31 million.
- (vi) After giving effect to a two-for-one subdivision.
- (vii) A total of 11,171,854 common shares have been reserved for issuance pursuant to the Employee Stock Option Plan. Options were outstanding at December 31, 1998 to purchase, until April 30, 2007, up to an aggregate of 6,771,054 (1997 – 7,760,000) shares, at various prices ranging from \$4.4475 to \$13.31875 per share. During the year, 988,946 (1997 – 2,333,200) shares were issued under this Plan for an aggregate consideration of \$4 million (1997 – \$11 million).

11. PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS

The Corporation and its subsidiaries maintain funded defined benefit pension plans which cover certain employees and agents. As at December 31, 1998, the present value of the accrued pension obligations was \$1,247 million (1997 – \$1,174 million) and the approximate present value of the pension fund assets available to meet these obligations was \$1,533 million (1997 – \$1,460 million). The actuarially determined obligations of the unfunded supplementary employee retirement plans as at December 31, 1998 were \$33 million (1997 – \$29 million) and the accrued cost to that date was \$32 million (1997 – \$27 million).

The current period charge for other post-retirement benefits provided by the Corporation and its subsidiaries was \$10 million (1997 – \$2 million).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. OTHER INCOME, NET

<i>(in millions of dollars)</i>	1998	1997
Share of Pargesa gains on disposal of long-term investments, net	174	113
Gain resulting from dilution of the Corporation's interest in Lifeco		175
Provision for integration costs		(250)
Other	(1)	(13)
	173	25

13. INCOME TAXES

	1998	1997
The following table reconciles the statutory and effective tax rates:		
Combined basic Canadian federal and provincial tax rates	44.6%	45.2%
Dividend income	(2.2)	(3.7)
Equity in net earnings of affiliated company	(7.1)	(10.6)
Lower effective tax rates on income not subject to tax in Canada	(5.1)	(6.7)
Decrease in the income tax rate resulting from prior years' adjustments	(0.5)	(4.4)
Miscellaneous including large Corporation's tax	3.6	(5.9)
	33.3%	13.9%

14. SIGNIFICANT EVENTS OF 1997

Business Acquisition During November and December 1997, Lifeco purchased through Great-West 100% of the issued and outstanding common shares of LIG for a total consideration of \$2,946 million including acquisition costs, made up of a combination of \$1,829 million cash, \$569 million preferred shares of Lifeco and Great-West and \$548 million common shares of Lifeco. The effective date of the acquisition was November 13, 1997 and the transaction was completed on December 23, 1997. The principal operations of LIG and its subsidiaries consist of individual insurance, group life and health insurance, reinsurance, property and casualty insurance, group and individual retirement products, segregated funds and mutual funds. The acquisition has been accounted for by the purchase method. Goodwill amounting to \$1,707 million is being amortized over a period of 30 years.

The results of the acquired businesses have been included in these financial statements from November 14, 1997. Estimated integration costs of \$250 million associated with the acquisition have been included in the 1997 Consolidated Statements of Earnings.

In addition to the above, Great-West acquired LIG's segregated fund business with net assets of \$4,600 million and mutual fund business with assets of \$695 million at December 31, 1997.

Corporation's Interest in Lifeco On November 19, 1997, the Corporation acquired 8,085,106 (after giving effect to the two-for-one subdivision effective in 1998) common shares of Lifeco from treasury for a consideration of \$133 million and Investors Group acquired 16,231,004 common shares of Lifeco from treasury for a consideration of \$267 million. As a result of this private placement and of the common shares issued by Lifeco as a part of its acquisition of LIG, the Corporation recorded a dilution gain of \$175 million in 1997.

POWER FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

The Corporation and its subsidiaries, in the normal course of managing exposure to fluctuations in interest rates, foreign exchange rates and market risks, are parties to various derivative financial instruments whose notional amount is not recorded on the balance sheet.

The following table summarizes the portfolio of off-balance sheet financial instruments at December 31:

(in millions of dollars)

	1 YEAR OR LESS	NOTIONAL AMOUNT			MAXIMUM CREDIT RISK	TOTAL ESTIMATED FAIR VALUE
		1-5 YEARS	OVER 5 YEARS	TOTAL		
1998						
Interest rate contracts	526	2,077	41	2,644	23	15
Foreign currency contracts	226	1,103	484	1,813	35	(61)
Equity index contracts	167	32	105	304	67	55
Purchased and written options	67	286		353	6	(7)
	986	3,498	630	5,114	131	2
1997						
Interest rate contracts	403	1,558	156	2,117	25	14
Foreign currency contracts	425	1,087	744	2,256	83	2
Equity index contracts	50	170	87	307	40	40
Purchased and written options	71	242		313		(22)
	949	3,057	987	4,993	148	34

The amount subject to credit risk is limited to the current market value of the instruments which are in a gain position. The maximum credit risk is presented without giving effect to any netting agreements or collateral arrangements and does not reflect actual or expected losses. The total estimated fair value represents the total amount that the Corporation and its subsidiaries would receive (or pay) to terminate all agreements at year-end. However, this does not represent a gain or loss to the Corporation as the hedged position is matched to certain of the Corporation's assets and liabilities. All counterparties are highly rated financial institutions on a diversified basis.

16. SEGMENTED INFORMATION

In 1998, the Corporation adopted CICA Section 1701, Segment Disclosures which modifies the definition of a reportable segment. Under this new section, segments correspond to the Corporation's organization structure.

The following strategic business units constitute the Corporation's reportable operating segments:

Investors Group Inc. offers a comprehensive package of financial planning services and investment products to its client base. Investors Group derives its revenues from a range of sources, but primarily from management fees which are charged to its proprietary group of mutual funds for investment advisory and management services. Investors Group also earns revenue from fees charged to its mutual funds for administrative services.

Great-West Lifeco Inc. offers through Great-West and LIG in Canada and GWL&A in the United States, a wide range of life insurance, health insurance, retirement and investment products, as well as reinsurance and specialty general insurance products to individuals, businesses and other private and public organizations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. SEGMENTED INFORMATION (CONTINUED)

Parjointco N.V. holds a 54.7% equity interest in Pargesa Holding S.A., a holding company which holds diversified interests in a limited number of major communications, industrial, energy, utility and food companies, based in Europe.

Other includes revenues from non-strategic investments, gains and losses related to the holding of strategic assets and other head office activities as well as consolidation adjustments.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. The Corporation evaluates the performance based on stand-alone operating segment net earnings adjusted, for example, for specific items arising from the consolidation process. Revenues and assets are attributed to geographic areas based on the point of origin of revenues and the location of assets.

Information on Profit Measure

December 31, 1998 (in millions of dollars)

	LIFECO	INVESTORS	PARJOINTCO	OTHER	TOTAL
Revenues					
Premium income	9,237				9,237
Net investment income	3,516	119		37	3,672
Fee income	1,003	855			1,858
	13,756	974		37	14,767
Expenses					
Insurance claims	10,680				10,680
Commissions, other operating expenses	2,134	605		30	2,769
Interest expense		45		43	88
	12,814	650		73	13,537
	942	324		(36)	1,230
Share of earnings of affiliate			46		46
Other income – net			174	(1)	173
Earnings before non-controlling interests	942	324	220	(37)	1,449
Income taxes	361	136		(14)	483
Non-controlling interests	245	56		(13)	288
Contribution to consolidated net earnings	336	132	220	(10)	678
Information on Asset Measure					
Total assets	54,725	1,799	1,240	269	58,033
Assets under administration	28,768	36,064			64,832

POWER FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. SEGMENTED INFORMATION (CONTINUED)

Information on Profit Measure

December 31, 1997 (in millions of dollars)

	LIFECO	INVESTORS	PARJOINTCO	OTHER	TOTAL
Revenues					
Premium income	4,587				4,587
Net investment income	2,185	126		24	2,335
Fee income	703	726			1,429
	7,475	852		24	8,351
Expenses					
Insurance claims	5,723				5,723
Commissions, other operating expenses	1,227	548		27	1,802
Interest expense		55		20	75
	6,950	603		47	7,600
	525	249		(23)	751
Share of earnings of affiliate			43		43
Other income – net	(250)		113	162	25
Earnings before non-controlling interests	275	249	156	139	819
Income taxes	27	102		(15)	114
Non-controlling interests	54	47		1	102
Contribution to consolidated net earnings	194	100	156	153	603
Information on Asset Measure					
Total assets	52,044	1,765	892	291	54,992
Assets under administration	23,393	32,248			55,641

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. SEGMENTED INFORMATION (CONTINUED)

Geographic Information

As at December 31 (in millions of dollars)

	CANADA	UNITED STATES	EUROPE	TOTAL
1998				
Revenues	9,756	5,011		14,767
Goodwill	1,680			1,680
Total assets	34,546	22,247	1,240	58,033
Assets under administration	49,397	15,435		64,832

As at December 31

	CANADA	UNITED STATES	EUROPE	TOTAL
1997				
Revenues	4,394	3,957		8,351
Goodwill	1,735			1,735
Total assets	33,437	20,663	892	54,992
Assets under administration	44,442	11,199		55,641

17. FAIR VALUE OF FINANCIAL INSTRUMENTS
AND RISK MANAGEMENT

The following table presents the fair value of on and off balance sheet financial instruments using the valuation methods and assumptions described below. Fair value represents the amount that would be exchanged in an arm's length transaction between willing parties and best evidenced by a quoted market price, if one exists. Fair values are management's estimates and are generally calculated using market conditions at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and matters of significant judgment.

POWER FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**17. FAIR VALUE OF FINANCIAL INSTRUMENTS
AND RISK MANAGEMENT (CONTINUED)**

<i>(in millions of dollars)</i>	1998			1997		
	BOOK VALUE	FAIR VALUE	EXCESS OF FAIR VALUE OVER BOOK VALUE	BOOK VALUE	FAIR VALUE	EXCESS OF FAIR VALUE OVER BOOK VALUE
Assets						
Cash and temporary						
investments	1,670	1,670		1,577	1,577	
Investments	49,060	51,131	2,071	47,736	49,437	1,701
Other assets	4,531	4,548	17	2,957	2,968	11
Total financial assets	55,261	57,349	2,088	52,270	53,982	1,712
Non-financial assets	2,772			2,722		
Total assets	58,033			54,992		
Liabilities						
Policy liabilities	44,690	46,666	1,976	41,892	44,338	2,446
Deposits and certificates	372	383	11	488	505	17
Long-term debt	837	884	47	979	1,042	63
Other liabilities	4,405	4,405		4,785	4,785	
Total financial						
liabilities	50,304	52,338	2,034	48,144	50,670	2,526
Non-financial						
liabilities	107			96		
Total liabilities	50,411			48,240		
Off-balance sheet						
financial instruments						
(Note 15)		2			34	

Fair value is determined using the following methods and assumptions:

The fair value of temporary financial instruments is assumed to be equal to book value due to their short-term maturities. These include cash and temporary investments, dividends and interest receivable, and premiums in the course of collection.

Shares and bonds are valued at quoted market prices, when available. When a quoted market price is not readily available, alternative valuation methods may be used. Mortgage loans are determined by discounting the expected future cash flows at market interest rates for loans with similar credit risk. Market values for real estate are determined based on a combination of the most recent appraisal and current market data available.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

The fair value of policy liabilities is based on the fair value of the assets of Great-West supporting them.

Deposit liabilities are determined by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms and credit risks.

Long-term debt is determined by reference to current market prices for debt with similar terms and risks.

The fair value of other liabilities is assumed to be equal to book value.

Off balance sheet financial instruments are based on quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, or net present value analysis.

Interest Rate Risk Interest rate risk is managed by effectively matching portfolio investments with liability characteristics. Hedging instruments are employed where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes. For Great-West, the valuation interest rate assumes a declining investment yield in order to incorporate reinvestment risk in the actuarial valuation.

Credit Risk Credit risk is managed through an emphasis of quality in the investment portfolio and by maintenance of issuer, industry and geographic diversification standards. For Great-West, projected investment returns are reduced to provide for future credit losses on currently held assets.

Reinsurance Risk of Great-West Large amount claim risk for life and health insurance and property and casualty insurance is controlled by having reinsurance in place for claims over specified maximum benefit amounts (which vary by line of business) and by having catastrophic accident coverage in place covering up to \$200 million of claims from a single event.

Reinsurance contracts do not relieve Great-West from its obligations to policyholders. Failure of reinsurers to honour their obligations could result in losses to Great-West. Consequently, allowances are established for amounts deemed uncollectible. Great-West evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

As a result of reinsurance, actuarial liabilities have been reduced by \$523 million (1997 – \$425 million).

Foreign Exchange Risk If the assets backing actuarial liabilities and other activities are not matched by currency, changes in foreign exchange rates can expose the Corporation and its subsidiaries to the risk of foreign exchange losses not offset by liability decreases.

Foreign exchange risk is managed whenever possible by matching assets with related liabilities by currency and through the use of derivative instruments such as forward contracts and cross-currency swaps. These financial instruments allow the Corporation and its subsidiaries to modify an asset position to more closely match actual or committed liability currency.

The Corporation itself may have an exposure to foreign currency fluctuations on its foreign currency denominated cash and temporary investments. Such foreign currency fluctuations and changes in the average yield would continue to affect the Corporation's income from investments.

Liquidity Risk Liquidity risk is the risk that the Corporation will have difficulty raising funds to meet commitments. The liquidity needs of the Corporation and its subsidiaries are closely managed through cash flow matching of assets and liabilities and forecasting earned and required yields, to ensure consistency between liability requirements and the yield of assets. Over 60% of policy liabilities are non-cashable prior to maturity, or subject to market value adjustments or withdrawal penalties.

Sensitivity of Actuarial Assumptions The actuarial assumption most susceptible to change in the short term is future investment returns. Based on the projected cash flows of Great-West as of December 31, 1998, the approximate after-tax impact of an immediate 1% increase in the general level of interest rates applied to actuarial liabilities and associated assets would be to increase the fair value of Great-West's surplus by \$14 million. The impact of an immediate 1% decrease would be to decrease the fair value of its surplus by \$57 million.

POWER FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. RELATED PARTY TRANSACTIONS

Great-West provides insurance benefits to corporations within the Power Financial group of companies. In all cases, transactions are made in the normal course of business and at market prices. In addition Investors Group distributes life insurance and disability insurance products of Great-West.

19. CONTINGENT LIABILITIES

The Corporation's subsidiaries, LIG, London Life and Great-West, are subject to individual legal actions arising in the ordinary course of business. These legal actions are not expected to have a material adverse effect on the consolidated financial position of the Corporation.

In addition, there are three proposed class actions commenced against Great-West (one in British Columbia, one in Ontario and one in Québec) related to the availability of policy dividends to pay future premiums. The courts have not yet decided whether any of these actions is appropriate for certification as a class action. These actions are in their early stages and it is difficult to predict their outcome with certainty. However, based on information presently known, it is not expected that these actions will have a material adverse effect on the consolidated financial position of the Corporation.

20. YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Corporation's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Corporation, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

AUDITORS' REPORT
TO THE SHAREHOLDERS OF POWER FINANCIAL CORPORATION

We have audited the consolidated balance sheets of Power Financial Corporation as at December 31, 1998 and 1997 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1998 and 1997, and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Montréal, Québec
April 9, 1999

Deloitte & Touche LLP

POWER FINANCIAL CORPORATION
FIVE-YEAR STATISTICAL SUMMARY

<i>December 31</i>	1998	1997	1996	1995	1994
	<i>(in millions of dollars)</i>				
Consolidated Balance Sheets					
Cash and temporary investments	1,670	1,577	946	741	777
Consolidated assets	58,033	54,992	31,289	30,688	30,407
Shareholders' equity	4,172	3,480	2,832	2,654	2,452
Consolidated assets and assets under administration	122,865	110,633	69,543	60,214	54,949
Consolidated Statements of Earnings					
Revenues					
Premium income	9,237	4,587	3,532	3,783	3,744
Investment income	3,672	2,335	2,148	2,181	2,042
Fee income	1,858	1,429	1,112	960	870
Expenses					
Paid or credited to policyholders	10,680	5,723	4,614	4,885	4,787
Operating expenses	2,769	1,802	1,465	1,346	1,261
Interest	88	75	91	116	125
	1,230	751	622	577	483
Share of earnings of affiliate	46	43	50	49	40
Other income – net	173	25	32	6	5
Income taxes	483	114	199	203	149
Non-controlling interests	288	102	130	120	106
Net earnings	678	603	375	309	273
	<i>(in dollars)</i>				
Per Share					
Operating earnings	1.37	1.12	0.95	0.84	0.74
Net earnings	1.87	1.70	1.05	0.86	0.76
Dividends	0.50	0.44	0.37	0.32	0.27
Book value at year-end	10.45	8.38	7.43	6.94	6.37
Market Price					
High	37.50	25.13	12.88	8.57	8.94
Low	22.125	12.00	8.00	6.82	6.75
Year-end	34.00	25.00	12.20	8.38	7.00

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

Power Financial Corporation believes in the importance of good corporate governance and the central role played by directors in the governance process. The Board of Directors recognizes the utility of sharing this belief with its shareholders, and takes this opportunity to expand on its philosophy and practices.

Power Financial is an international management and holding company. Power Corporation of Canada has controlled Power Financial since it was organized in 1984, and indirectly holds 67.5 per cent of its outstanding common shares. Power Financial is not an operating company and over half of its interests are located outside Canada, specifically in the United States and Europe. These characteristics are important in any consideration of governance issues.

There exist many models of corporate ownership and governance, from widely-held to closely-held companies, with boards composed largely of “related” directors and boards composed almost entirely of “unrelated” directors. It is our belief that no single corporate governance model is superior or appropriate in all cases.

The Board and Board Committees

The directors supervise the management of the business and affairs of a corporation. In fulfilling that responsibility, the Power Financial Board appoints senior executive management, provides advice to management from time to time, and assesses the ongoing progress of the Corporation and its subsidiaries. The objective of the Directors in performing these functions is to enhance shareholder value while acting in the long-term best interests of the Corporation.

A number of our Directors are active through committees of the Board. There are four such committees of Directors: the Executive Committee, the Audit Committee, the Compensation Committee and the Committee responsible for administering the Employee Stock Option Plan. Committee membership is shown on page 101 of this annual report. The Board has the authority to establish additional committees of Directors and to determine their roles and responsibilities.

The Executive Committee meets when necessary in the interval between meetings of the full Board. It has all of the powers that, by law, may be delegated to it by the Board, but does not exercise those powers to make a significant decision that has not already been approved in principle by the full Board, except in a situation where immediate action is required. The activities and decisions of the Executive Committee are reported to the Board of Directors.

In the performance of its functions, the Audit Committee reviews with the Corporation's auditors the audited financial statements and reviews financial information to be included in public disclosure documents. It also reviews the nature and scope of the annual audit plan and makes a recommendation to the Board regarding the appointment of auditors. The Committee communicates directly and, from time to time, meets privately with the Corporation's auditors.

The Compensation Committee reviews and establishes the compensation of certain executive officers. Its role is more fully described in the Corporation's Management Proxy Circular. In the performance of its function, the Committee reviews the performance of the executive officers and of the Corporation as a whole. It reviews, from time to time, the Corporation's compensation policy, its pension and retirement income policy and its benefits program.

The Stock Option Plan Committee administers the Corporation's Employee Stock Option Plan.

C o m p o s i t i o n o f t h e B o a r d a n d B o a r d C o m m i t t e e s

Nominees for election to the Board of Directors are chosen according to a variety of criteria including integrity and reputation, general knowledge and experience in a particular field of interest. We believe that a diversity of views and experiences enhances the ability of the Board, as a whole, to fulfill its responsibilities to the Corporation. Directors are not required to be specialists in the affairs of the Corporation or the industries in which it invests, but are expected to provide the Corporation with the benefit of their domestic or international business experience, their judgment and their vision.

A majority of the Corporation's 14 Directors are considered to be unrelated to Power Financial. In addition, a number of Directors are free from any interest in, or relationship with, either Power Financial or its controlling shareholder. In light of the obligations and duties falling upon directors, Power Financial does not believe that whether a director is related or unrelated is an essential criterion for effective board participation. All of the Corporation's Directors, whether related or not, bring to the Corporation an interest in and knowledge of the affairs of the Corporation and its affiliated companies, which is a benefit to Power Financial and its shareholders.

All of the members of the Audit Committee, the Compensation Committee and the Committee responsible for administering the Employee Stock Option Plan are non-management Directors.

BOARD OF DIRECTORS

ANDRÉ BISSON, O.C. ⁽²⁾ CORPORATE DIRECTOR	AIMERY LANGLOIS-MEURINNE MANAGING DIRECTOR, PARGESA HOLDING S.A. MANAGING DIRECTOR, ORIOR HOLDING S.A. CHAIRMAN OF THE SUPERVISORY BOARD, IMÉTAL S.A.
JAMES W. BURNS, O.C. ⁽¹⁾⁽⁴⁾ DEPUTY CHAIRMAN, POWER CORPORATION OF CANADA	THE RIGHT HONOURABLE DONALD F. MAZANKOWSKI, P.C. ⁽⁴⁾ COMPANY DIRECTOR
ANDRÉ DESMARAIS ⁽¹⁾ DEPUTY CHAIRMAN OF THE CORPORATION AND PRESIDENT AND CO-CHIEF EXECUTIVE OFFICER, POWER CORPORATION OF CANADA	SYLVIA OSTRY, C.C. ⁽²⁾ DISTINGUISHED RESEARCH FELLOW, CENTRE FOR INTERNATIONAL STUDIES, UNIVERSITY OF TORONTO
PAUL DESMARAIS, P.C., C.C. ⁽¹⁾⁽³⁾⁽⁴⁾ CHAIRMAN OF THE EXECUTIVE COMMITTEE, POWER CORPORATION OF CANADA	P. MICHAEL PITFIELD, P.C., Q.C. VICE-CHAIRMAN, POWER CORPORATION OF CANADA
PAUL DESMARAIS, JR. ⁽¹⁾ CHAIRMAN OF THE CORPORATION AND CHAIRMAN AND CO-CHIEF EXECUTIVE OFFICER, POWER CORPORATION OF CANADA	MICHEL PLESSIS-BÉLAIR, FCA ⁽¹⁾ EXECUTIVE VICE-PRESIDENT AND CHIEF FINANCIAL OFFICER OF THE CORPORATION AND VICE-CHAIRMAN AND CHIEF FINANCIAL OFFICER, POWER CORPORATION OF CANADA
GÉRALD FRÈRE ⁽³⁾ MANAGING DIRECTOR, FRÈRE-BOURGEOIS S.A.	RAYMOND ROYER, O.C., FCA ⁽²⁾⁽³⁾⁽⁴⁾ PRESIDENT AND CHIEF EXECUTIVE OFFICER, DOMTAR INC.
ROBERT GRATTON ⁽¹⁾ PRESIDENT AND CHIEF EXECUTIVE OFFICER OF THE CORPORATION	GUY ST-GERMAIN, C.M. ⁽³⁾ PRESIDENT, PLACEMENTS LAUGERMA INC.

OFFICERS

PAUL DESMARAIS, JR. CHAIRMAN OF THE BOARD	ROBERT GRATTON PRESIDENT AND CHIEF EXECUTIVE OFFICER	
ANDRÉ DESMARAIS DEPUTY CHAIRMAN	MICHEL PLESSIS-BÉLAIR, FCA EXECUTIVE VICE-PRESIDENT AND CHIEF FINANCIAL OFFICER	ARNAUD VIAL SENIOR VICE-PRESIDENT, FINANCE
EDWARD JOHNSON VICE-PRESIDENT, GENERAL COUNSEL AND SECRETARY	JOCELYN LEFEBVRE, C.A. MANAGING DIRECTOR, POWER FINANCIAL EUROPE B.V.	
DENIS LE VASSEUR, C.A. CONTROLLER	MONIQUE LÉTOURNEAU, CFA TREASURER	JEANNINE ROBITAILLE ASSISTANT SECRETARY

(1) Member of the Executive Committee (2) Member of the Audit Committee

(3) Member of the Compensation Committee (4) Member of the Employee Stock Option Plan Committee

CORPORATE INFORMATION

Additional copies of this annual report, as well as copies of the annual reports of Great-West Lifeco Inc., The Great-West Life Assurance Company, London Insurance Group Inc., London Life Insurance Company, Investors Group Inc., and Pargesa Holding S.A. are available from: the Secretary, Power Financial Corporation, 751 Victoria Square, Montréal, Québec, Canada H2Y 2J3 or 1 Lombard Place, Suite 2600, Richardson Building, Winnipeg, Manitoba, Canada R3B 0X5.

Transfer Agent and Registrar

Montreal Trust Company

Place Montréal Trust, 1800 McGill College Avenue, 6th Floor,

Montréal, Québec, Canada H3A 3K9, (514) 982-7555

151 Front Street West, 8th Floor, Toronto, Ontario, Canada M5J 2N1, (416) 981-9633

221 Portage Avenue, Winnipeg, Manitoba, Canada R3B 2A6, (204) 943-0451

Stock Listings

COMMON SHARES:

The Montreal Exchange

The Toronto Stock Exchange

The Winnipeg Stock Exchange

FIRST PREFERRED SHARES

SERIES A:

The Montreal Exchange

The Toronto Stock Exchange

FIRST PREFERRED SHARES

SERIES B:

The Montreal Exchange

The Toronto Stock Exchange

The Winnipeg Stock Exchange

FIRST PREFERRED SHARES

SERIES C:

The Montreal Exchange

The Toronto Stock Exchange

The Winnipeg Stock Exchange

FIRST PREFERRED SHARES

SERIES D:

The Montreal Exchange

The Toronto Stock Exchange

The Winnipeg Stock Exchange

Shareholders with questions relating to the payment of dividends, change of address and share certificates should contact the Transfer Agent.

Si vous préférez recevoir ce rapport annuel en français,

veuillez vous adresser au secrétaire,

Corporation Financière Power,

751, square Victoria, Montréal (Québec) Canada H2Y 2J3 ou

1 Lombard Place, bureau 2600, Richardson Building, Winnipeg (Manitoba) Canada R3B 0X5.

